

uMLALAZI MUNICIPALITY

**UNAUDITED ANNUAL
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2017**

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Finance Department

uMLALAZI MUNICIPALITY

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Annual Financial Statements

for

uMlalazi Municipality

for the year ended 30 June 2017

Province: **KwaZulu-Natal**

AFS rounding: **To the nearest Rand**

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uMLALAZI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

General information

Members of the Council

Councillor	T B Zulu	Mayor and chairperson of the Executive Committee
Councillor	B P Simelane	Deputy Mayor and member of the Executive Committee
Councillor	E Z Jaffe	Chief Whip
Councillor	C T Dlamini	Speaker
Councillor	C M Gamede	Member of the Executive Committee
Councillor	M M Khaniyile	Member of the Executive Committee
Alderman	S B Larkan	Member of the Executive Committee
Councillor	N L Ngidi	Member of the Executive Committee
Councillor	J K Powell	Member of the Executive Committee
Councillor	M H Qwabe	Member of the Executive Committee
Councillor	I Woolatt	Member of the Executive Committee
Councillor	Q T Xulu	Member of the Executive Committee
Councillor	L B G Biyela	Member
Councillor	W P Biyela	Member
Councillor	Z L Buthelezi	Member
Councillor	S S Cele	Member
Councillor	S V Chamane	Member
Councillor	J C Erasmus	Member
Councillor	M E Dlamini	Member
Councillor	A B Dlamini	Member
Councillor	S B Dlamuka	Member
Councillor	M Dludla	Member
Councillor	I M M Filand	Member
Councillor	M Govindsamy	Member
Councillor	T V Jiyane	Member
Councillor	N N F Luvuno	Member
Councillor	B C Magwaza	Member
Councillor	J T Magwaza	Member
Councillor	S G Mbambo	Member
Councillor	M F Mdluli	Member
Councillor	G S Mkhize	Member
Councillor	N M Mnqayi	Member
Councillor	M B Mthiyane	Member
Councillor	N Mbuyisa	Member
Councillor	S Naicker	Member
Councillor	M T Ncanana	Member
Councillor	W L Ngema	Member
Councillor	M M Ngema	Member
Councillor	B D Ngidi	Member
Councillor	S F Ngonyama	Member
Councillor	N B Nkala	Member
Councillor	M Z Nkwanyana	Member
Councillor	T E Ntsele	Member
Councillor	S S Ntsele	Member
Councillor	M G Ntuli	Member
Councillor	N G Ntuli	Member
Councillor	M M M Ntuli	Member
Councillor	P T O Shange	Member
Councillor	B N Shandu	Member
Councillor	B C Sithole	Member
Councillor	H S Thango	Member
Councillor	N S Zulu	Member
Councillor	B L Zungu	Member
Councillor	E M Zwane	Member

uMLALAZI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR 30 JUNE 2017

General information (continued)

Acting Municipal Manager

Khulekani C Zulu

Chief Financial Officer

Zakhele Mhlongo

Grading of Local Authority

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Auditors

Auditor-General South Africa

Bankers

First National Bank, Eshowe (Current account - Primary Bank Account)

Registered Office: Municipal Buildings, Eshowe

Physical address: Hutchinson Street
Eshowe

Postal address: P O Box 37
Eshowe
3815

Telephone number: 035 - 473 3474

Fax number: 034 - 474 4733

E - mail address: mm@umlalazi.org.za


UMLALAZI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

Certification by the Accounting Officer

I am responsible for the preparation of these annual financial statements, which are set out on pages 1 to 61 in terms of section 126 (1) of the Local Government : Municipal Finance Management Act, 2003 (Act No. 56 of 2003) and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors as disclosed in note 34 of these annual financial statements are within the upper limits of the framework envisaged in section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act, 1998 (Act No. 20 of 1998) and the Minister of Co-operative Governance and Traditional Affairs' determination in accordance with this Act.



Acting Accounting Officer
K C Zulu

DATE: 22.8.17.

uMLALAZI MUNICIPALITY

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

	Notes	2017	2016
		R	R
ASSETS			
Current assets			
Inventory	2	2 848 094	2 835 494
Receivables from exchange transactions	3	9 389 202	7 934 606
Receivables from non-exchange transactions	5	10 215 119	14 494 725
Current portion of loans receivable	6	22 305	19 995
VAT receivable	4	3 438 057	10 416 514
Cash and cash equivalents	7	86 122 738	112 438 562
		<u>112 035 516</u>	<u>148 139 895</u>
Non-current assets			
Property, plant and equipment	8	804 858 353	779 230 420
Intangible assets	11	799 066	619 252
Investment property carried at fair value	12	16 257 000	16 257 000
Heritage assets	13	10 311 344	10 311 344
Investments	14	1 000	1 000
Deposits with creditors	6	739 165	739 165
Loans receivable	6	636 865	633 817
		<u>833 602 792</u>	<u>807 792 000</u>
Total assets		<u>945 638 309</u>	<u>955 931 895</u>
LIABILITIES			
Current liabilities			
Consumer deposits	15	1 911 455	1 763 664
Payables from exchange transactions	16	39 367 976	47 899 242
VAT payable	4	1 062 005	776 936
Unspent conditional grants and receipts	17	6 611 267	20 098 974
Loans payable	18	342 816	342 816
Employee benefits	19	5 227 996	4 551 575
Provisions	20	-	5 063 439
		<u>54 523 514</u>	<u>80 496 646</u>
Non-current liabilities			
Loans payable	18	3 770 972	4 113 788
Employee benefit obligations	21	17 790 000	15 548 000
		<u>21 560 972</u>	<u>19 661 788</u>
Total liabilities		<u>76 084 486</u>	<u>100 158 434</u>
Net assets		<u>869 553 819</u>	<u>855 773 463</u>
NET ASSETS			
Housing operating account	22	9 716 593	9 210 114
Accumulated surplus	23	859 837 226	846 563 349
Total net assets		<u>869 553 819</u>	<u>855 773 463</u>

uMLALAZI MUNICIPALITY

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2017

Actual

	Notes	2017 R	2016 R
REVENUE			
Revenue from Non-exchange Transactions		291 928 438	376 746 435
<i>Taxation revenue</i>		50 299 608	48 690 257
Property rates	24	46 588 390	46 375 576
Property rates - penalties imposed		3 711 219	2 314 681
<i>Transfer revenue</i>		205 727 241	295 120 918
Government grants and subsidies - operational	25	148 702 887	135 560 171
Transfers recognised - capital		57 024 355	65 674 184
Public contributions, donated and contributed PPE	26	-	93 886 563
<i>Other</i>		35 901 588	32 935 261
Fines		35 901 588	32 197 564
Actuarial gains		-	737 696
Revenue from Exchange Transactions		86 227 539	82 602 677
Service charges	27	72 377 054	67 626 976
Rental of facilities and equipment	28	1 422 738	1 155 907
Interest earned- external investments	29	5 567 036	6 466 900
Interest earned- outstanding debtors		531 485	457 035
Licences and permits	30	3 468 444	3 419 316
Other income	31	2 460 368	2 565 093
Gain/ (loss) on sale of assets	32	400 415	911 450
Total revenue		378 155 977	459 349 112
EXPENDITURE			
Employee related costs	33	92 540 159	78 958 055
Remuneration of councillors	34	17 631 706	17 442 539
Allowance for doubtful debts	5	43 990 841	38 918 057
Depreciation, impairment loss and amortisation	35	41 263 953	39 990 330
Repairs and maintenance	36	20 387 564	21 348 145
Finance costs	37	537 243	576 525
Bulk purchases	38	45 758 770	43 727 155
Contracted services	39	32 887 808	28 210 831
Employee benefits	40	6 867 065	3 694 924
General expenses	41	61 644 211	65 776 177
Contributions to staff leave	42	2 664 740	2 563 645
Total expenditure		366 174 058	341 206 384
Profit/ (loss) on fair value adjustment	43	-	10 309 933
SURPLUS/ (DEFICIT) FOR THE YEAR		11 981 918	128 452 662

uMLALAZI MUNICIPALITY
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30 JUNE 2017

	(Note 22)	(Note 23)	
	Housing operating account	Accumulated surplus	Total
	R	R	R
Balance at 30 June 2015	11 281 110	702 769 150	714 050 260
Surplus (deficit) for the year	-2 368 646	130 821 308	128 452 662
Adjustments prior year		-7 660 607	-7 660 607
Transfer to Capital Replacement Reserve		20 633 498	20 633 498
Transfer from Housing Operating Account	-157 624		-157 624
Public contributions	62 523		62 523
Interest received	392 752		392 752
Balance at 30 June 2016	9 210 114	846 563 349	855 773 463
	(Note 22)	(Note 23)	
Balance at 30 June 2016	9 210 114	846 563 349	855 773 463
Surplus (deficit) for the year	-6 725	11 988 643	11 981 918
Adjustments prior year	-	-8 354 420	-8 354 420
Transfer to Capital Replacement Reserve	-	9 639 655	9 639 655
Transfer from Housing Operating Account	-14 371		-14 371
Public contributions	64 091		64 091
Interest received	463 483		463 483
Balance at 30 June 2017	9 716 593	859 837 226	869 553 819

uMLALAZI MUNICIPALITY
CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2017

		2017	2016 (Restated)
	Notes	R	R
CASH FLOWS FROM OPERATING ACTIVITIES			
<u>Receipts:</u>			
Receipts from consumers and other		165 000 801	95 591 785
Government - Operating		148 702 887	135 560 171
Government - Capital		57 024 355	65 674 184
Interest income		5 567 036	6 466 900
<u>Payments:</u>			
Suppliers		-216 432 888	-104 471 627
Employee costs		-110 171 864	-96 400 594
Transfers and grants		-652 040	-980 360
Finance costs		-537 243	-576 525
Net cash flow from operating activities	44	48 501 043	100 863 933
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds on disposal of Property, Plant and Equipment		400 415	911 450
(Increase)/ decrease in loans receivable		-5 358	95 678
Purchase of Property, Plant and Equipment:			
Additions infrastructure	8	-62 082 769	-49 482 779
Acquisitions	8	-12 477 747	-18 663 930
Intangible assets	11	-456 383	-355 340
Net cash flows from investing activities		-74 621 842	-67 494 921
CASH FLOWS FROM FINANCING ACTIVITIES			
<u>Receipts:</u>			
Increase in consumer deposits		147 791	377 889
<u>Payments:</u>			
Repayment of loans payable	45	-342 816	-342 816
(Increase)/ decrease in investments		-	-
Net cash flows from financing activities		-195 023	35 073
Net increase/ (decrease) in cash and cash equivalents	46	-26 315 822	33 404 084
Cash and cash equivalents at the beginning of the year		112 438 562	79 034 476
Cash and cash equivalents at the end of the year	7	86 122 738	112 438 562

UMLALAZI MUNICIPALITY
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE YEAR ENDED 30 JUNE 2017

	Approved Budget 2017	Adjustments	Final Budget 2017	Actual 2017	Difference: Final Budget and Actual 2017	Variance 2016	Explanation of significant variances greater than 10% versus budget
	R		R	R	R	%	
REVENUE							
Revenue from Non-exchange Transactions	289 670 080	7 371 990	297 042 070	291 928 438	-5 113 632		
Taxation revenue	50 714 380	2 431 180	53 145 560	50 299 608	-2 845 952		
Property rates	48 497 880	820 870	49 318 750	46 588 390	-2 730 360	-5.54%	
Property rates - penalties imposed	2 216 500	1 610 310	3 826 810	3 711 219	-115 591	-3.02%	
Transfer revenue	211 908 200	-2 690 590	209 217 610	205 727 241	-3 490 369		
Government grants and subsidies - operational	150 263 560	1 198 920	151 462 480	148 702 887	-2 759 593	-1.82%	
Transfers recognised - capital	58 137 440	-3 634 310	54 503 130	57 024 355	2 521 225	4.63%	
Public contributions, donated and contributed PPE	3 507 200	-255 200	3 252 000	-	-3 252 000	-100.00%	The Crèches that were constructed by The Divine Life Society of SA were not officially handed over to the municipality
Other	27 047 500	7 631 400	34 678 900	35 901 588	1 222 688		
Fines	27 047 500	7 631 400	34 678 900	35 901 588	1 222 688	3.53%	
Actuarial gains	-	-	-	-	-		
Revenue from Exchange Transactions	85 287 910	418 380	85 706 290	86 227 539	521 249		
Service charges	71 334 790	-426 740	70 908 050	72 377 054	1 469 004	2.07%	
Rental of facilities and equipment	1 252 900	-91 170	1 161 730	1 422 738	261 008	22.47%	The revenue from sugar cane leases increased more than anticipated.
Interest earned- external investments	6 046 860	437 030	6 483 890	5 567 036	-916 854	-14.14%	Adjustments budget prediction was overstated.
Interest earned- outstanding debtors	397 080	108 400	505 480	531 485	26 005	5.14%	
Licences and permits	3 562 190	18 460	3 580 650	3 468 444	-112 206	-3.13%	
Other income	2 564 090	372 400	2 936 490	2 460 368	-476 122	-16.21%	Decreased revenue from building plan fees and electricity connections.
Gain/ (loss) on sale of assets	130 000	-	130 000	400 415	270 415	208.01%	Auction proceeds increased the revenue.
Total revenue	374 957 990	7 790 370	382 748 360	378 155 977	-4 592 383		
EXPENDITURE							
Employee related costs	102 252 210	-8 854 680	93 397 530	92 540 159	-857 371	-0.92%	
Remuneration of councillors	19 334 500	-774 110	18 560 390	17 631 706	-928 685	-5.00%	
Allowance for doubtful debts	24 456 190	17 328 310	41 784 500	43 990 841	2 206 341	5.28%	
Depreciation and impairment loss	38 925 230	2 153 730	41 078 960	41 263 953	184 993	0.45%	
Repairs and maintenance	22 693 490	454 460	23 147 950	20 387 564	-2 760 386	-11.92%	Decrease in expenditure on materials for rural roads and urban roads, transport costs and fuel and oil costs.
Finance costs	540 550	-	540 550	537 243	-3 307	-0.61%	
Bulk purchases	48 940 430	-832 600	48 107 830	45 758 770	-2 349 060	-4.88%	
Contracted services	30 313 590	4 933 800	35 247 390	32 887 808	-2 359 582	-6.69%	
Employee benefits	8 281 030	-2 256 370	6 024 660	6 867 065	842 405	13.98%	Due to the increased number of employees the provision for post medical benefit increased.
General expenses	53 091 770	7 031 750	60 123 520	61 644 211	1 520 691	2.53%	
Transfer and Grants	4 302 400	749 180	5 051 580	-	-		
Contributions to staff leave	1 644 400	912 600	2 557 000	2 664 740	107 740	4.21%	
Total expenditure	354 775 790	20 846 070	375 621 860	366 174 058	-4 396 222		
Profit/ (loss) on fair value adjustment	830 000	-	830 000	-	-830 000	-100.00%	The service provider, Umhlaba Geomatics Inc confirmed that there were no fair value adjustments required on investment properties.
SURPLUS/ (DEFICIT) FOR THE YEAR	21 012 200	-13 055 700	7 956 500	11 981 918	-1 026 162		

uMLALAZI MUNICIPALITY

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

NOTE .1 ACCOUNTING POLICIES

1.1 BASIS OF PRESENTATION

The Annual Financial Statements have been prepared on an accrual basis of accounting and are in accordance with the historical cost convention.

The Annual Financial Statements have been prepared in accordance with South African Standards of Generally Recognized Accounting Practice (GRAP) as prescribed by the Minister of Finance in terms of Government Gazette number 31021, Notice Number 516, dated 9 May 2008 and also in terms of the standards and principles contained in Directives 3 and 5 issued by the Accounting Standards Board ("ASB") in March 2009 and May 2010, respectively, as amended.

1.1.1 Changes in accounting policy and comparability

Accounting Policies have been consistently applied, except where otherwise indicated below:

For the years ended 30 June 2013 and 30 June 2014 the municipality has adopted the accounting framework as set out in point 1 above. The details of any resulting changes in accounting policy and comparative restatements are set out below.

The municipality changes an accounting policy only if the change:

- a) is required by a Standard of GRAP; or
- b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the performance or cash flow.

1.1.2 Critical judgments, estimations and assumptions

The following are the critical judgments, apart from those involving estimations, that the management has made in the process of applying the municipality's Accounting Policies and that have the most significant effect on the amounts recognised in Annual Financial Statements:

1.1.2.1 Revenue Recognition

Accounting Policy 1.10.2 on *Revenue from Exchange Transactions* and Accounting Policy 1.10.3 on *Revenue from Non-exchange Transactions* describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgment, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: *Revenue from Exchange Transactions* and GRAP 23: *Revenue from Non-exchange Transactions*. In particular when services are rendered, whether the service has been rendered. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

1.1.2.2 Financial assets and liabilities

The classification of financial assets and liabilities into categories is based on judgment by management.

1.1.2.3 Impairment of Financial Assets

Accounting Policy 1.6.4 on *Impairment of Financial Assets* describes the process followed to determine the value by which financial assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of financial assets as set out in GRAP 104: *Financial Instruments*. The management of the municipality is satisfied that the impairment of financial assets recorded during the year, is appropriate.

1.1.2.4 Useful lives of Property, Plant and Equipment ("PPE")

As described in Accounting Policies 1.3.3 and 1.4, the municipality depreciates/amortizes its property, plant and equipment, and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives and residual values of the assets are based on industry knowledge.

1.1.2.5 Impairment: Write down of PPE and Inventories

Significant estimates and judgments are made relating to PPE impairment tests and write down of inventories to net realizable values.

1.1.2.6 Defined Benefit Plan Liabilities

As described in Accounting Policy 13.3, the municipality obtains actuarial valuations of its defined benefit plan liabilities. The defined benefit obligations of the municipality that were identified are Post-retirement Health Benefit Obligations and Long-service Awards. The estimated liabilities are recorded in accordance with the requirements of IAS 19 *Employee Benefits*. Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in Note 4 to the Annual Financial Statements.

Multi-employer defined benefit funds are accounted for as defined contribution plan as set out in note 1.13.

1.1.3 Presentation currency

The Annual Financial Statements are presented in South African Rand, rounded off to the nearest Rand which is the municipality's functional currency.

1.1.4 Going concern assumption

The Annual Financial Statements have been prepared on a going concern basis.

1.1.5 Offsetting

Assets, liabilities, revenues and expenses have not been offset, except when offsetting is required or permitted by a Standard of GRAP.

1.1.6 New standards and interpretations

1.1.6.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard / Interpretation: Effective date: Years beginning on or after Expected Impact:

GRAP 25: Employee benefits 01 April 2013. This standard prescribes similar requirements to those in terms of IAS19: Employee Benefits. Since IAS 19 has been applied in developing the current accounting policy, no impact on the financial statements.

GRAP 1(as revised 2012): Presentation of Financial Statements 01 April 2013 No material changes effected.

GRAP 3 (As revised 2012): Accounting Policies, Change in Accounting Estimates and Errors 01 April 2013 No material changes effected.

GRAP 7 (as revised 2012): Investments in Associates 01 April 2013 Currently not relevant to the municipality.

GRAP 9 (as revised 2012): Revenue from Exchange Transactions 01 April 2013 No material changes effected.

GRAP 12 (as revised 2012): Inventories 01 April 2013 No material changes effected.

GRAP 13 (as revised 2012): Leases 01 April 2013 No material changes effected.

GRAP 16 (as revised 2012): Investments property 01 April 2013 No material changes effected.

GRAP 17 (as revised 2012): Property, Plant and Equipment 01 April 2013 No material changes effected.

GRAP 27 (as revised 2012): Agriculture (Replaces GRAP 101) 01 April 2013 Currently not relevant to the municipality.

GRAP 31 (as revised 2012): Intangible Assets

(Replaces GRAP 102) 01 April 2013 no material changes effected.

IGRAP 1: Applying the Probability Test on the Initial Recognition of Revenue 01 April 2013 this interpretation indicates the treatment of traffic fines. As a result revenue and Expenditure will increase.

1.1.6.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2012 or later periods:

GRAP 105: Transfers of Functions between Entities under Common Control

The objective of this Standard of GRAP is to establish accounting principles for the acquirer and transferor in a transfer of functions between municipalities under common control.

A transfer of functions between municipalities under common control is a reorganisation and/or reallocation of functions between municipalities that are ultimately controlled by the same entity before and after a transfer of functions.

In the event of a transfer of functions between municipalities under common control, the assets and liabilities should be recognised (by the acquirer) at their carrying amounts and should be derecognised (by the transferor) at their carrying amounts.

The difference between amount of consideration paid or received, if any, and the carrying amounts of assets and liabilities should be recognised in accumulated surplus / (deficit).

Specific disclosures are required when there is a transfer of functions between municipalities under common control.

No effective date has yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

GRAP 106: Transfers of Functions between Entities not Under Common Control

The objective of this Standard of GRAP is to establish accounting principles for the acquirer in a transfer of functions between municipalities not under common control.

A transfer of functions between municipalities not under common control is a reorganisation and/or reallocation of functions between municipalities that are not ultimately controlled by the same entity before and after a transfer of functions.

In the event of a transfer of functions between municipalities not under common control, the assets and liabilities should be recognised (by the acquirer) at their acquisition-date fair values and should be derecognised (by the acquiree) at their carrying amounts.

The difference between amount of consideration paid or received, if any, and the fair value of assets acquired and liabilities assumed or carrying amounts of assets transferred and liabilities relinquished should be recognised in surplus / (deficit).

For transfer of functions between municipalities not under common control there are some specific recognition and measurement principles and exceptions to the recognition and measurement principles.

Specific disclosures are required when there is a transfer of functions between municipalities not under common control.

No effective date has yet been determined by the Minister of Finance.

The municipality expects to adopt the standard once it becomes effective.

The impact of this amendment is currently being assessed.

GRAP 107: Mergers

The objective of this Standard of GRAP is to establish accounting principles for the combined municipality and combining municipalities in a merger.

A merger is where a new combined municipality is started, no acquirer can be identified and the combining municipalities do not have any control over the municipality.

In the event of a merger, the assets and liabilities should be recognised (by the combined municipality) at their carrying amounts and should be derecognised (by the combining municipalities) at their carrying amounts.

The difference between the carrying amounts of assets and liabilities should be recognised in accumulated surplus / (deficit).

Specific disclosures are required when there is a merger.

No effective date has yet been determined by the Minister of Finance.

The municipality expects to adopt the standard once it becomes effective.

The impact of this standard is currently being assessed.

GRAP 20: Related Party Disclosures

The objective of this Standard of GRAP is to ensure that a municipality's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

This Standard of GRAP requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the municipality in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This Standard of GRAP also applies to individual financial statements.

This Standard of GRAP requires that only transactions with related parties where the transactions are not concluded within normal operating procedures or on terms that are not no more or no less favourable than the terms it would use to conclude transactions with another municipality, entity or person are disclosed.

The Standard of GRAP sets out the requirements, inter alia, for the disclosure of:

- control;
- related party transactions; and
- remuneration of management

No effective date has yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

For the year under review, Council has applied IPSAS 20.

1.1.6.3 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2012 or later periods but are not relevant to its operations:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which a municipality reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of a municipality that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by a municipality within a particular region.

No effective date has been determined by the Minister of Finance.

The municipality expects to adopt the standard once it becomes effective.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the financial statements.

1.2 HOUSING OPERATING ACCOUNT

The Housing Operating Account was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from National and Provincial Government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to the Housing Operating Account. Housing selling schemes both complete and in progress as at 1 April 1998, were also transferred to the Housing Operating Account.

In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Operating Account. Monies standing to the credit of the Housing Operating Account can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

1.3 PROPERTY, PLANT AND EQUIPMENT

1.3.1 Initial Recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of services, rental to others, or for administrative purposes, and are expected to be used during more than one year.

The cost of an item of property, plant and equipment is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.

Property, plant and equipment are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost, where applicable, also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

The cost of an item of property, plant and equipment acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at its fair value. If the acquired item could not be measured at its fair value, its cost was measured at the carrying amount of the asset given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

1.3.2 Subsequent Measurement

Subsequent expenditure relating to property, plant and equipment is capitalized if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the municipality and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalized when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognizes the part of the asset being replaced and capitalizes the new component.

Subsequently all property plant and equipment, are measured at cost (which includes deemed cost for previously unrecognized assets), less accumulated depreciation and accumulated impairment losses.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when the compensation becomes receivable.

1.3.3 Depreciation

Land is not depreciated as it is regarded as having an indefinite life. Depreciation of assets other than land is calculated, using the straight line method, to depreciate their cost to their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The depreciation rates are based on the following estimated useful lives.

Depreciation only commences when the asset is available for use, unless stated otherwise.

<u>Details</u>	<u>Years</u>
Infrastructure	
Roads	30 – 80
Electricity	20 - 50
Storm Water	40 – 60
Solid Waste Disposal	10 – 30
Community	
Community and Recreation Facilities	20 – 30
Other Assets	20 – 30
Vehicles	5 – 10
Furniture and Fittings	7 – 10

The assets' residual values, estimated useful lives and depreciation method are reviewed annually, and adjusted prospectively if appropriate, at each reporting date.

1.3.4 Incomplete Construction Work

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is available for use.

1.3.5 Finance Leases

Assets capitalized under finance leases are depreciated over their expected useful lives on the same basis as PPE controlled by the entity or where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term.

1.3.6 Infrastructure Assets

Infrastructure Assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure assets are treated similarly to all other assets of the municipality.

1.3.7 Derecognition of Property, Plant and Equipment

The carrying amount of an item of property, plant and equipment is derecognized on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or losses arising from derecognition of an item of property, plant and equipment is included in surplus or deficit for the year when the item is derecognized.

Gains or losses are calculated as the difference between the net book value of assets (cost less accumulated depreciation and accumulated impairment losses) and the sales proceeds.

1.3.8 Impairment of Assets

1.3.8.1 Cash - generating Assets

Identification:

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Discount rate

The discount rate is a rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortization is recognised immediately in surplus or deficit for the year.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

- To the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortization is recognised immediately in surplus or deficit for the year.

1.3.8.2 Impairment of Non-cash Generating Assets

Identification

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset no impairment recognised.

Value in use

Value in use of an asset is the present value of the asset's remaining service potential.

The present value of the remaining service potential of an asset is determined using the following approach:

Depreciated replacement cost approach:

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimized" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an oversized or overcapacity asset. Oversized assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimized basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortization is recognised immediately in surplus or deficit for the year.

An impairment loss is recognised for non-cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

- To the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortization is recognised immediately in surplus or deficit for the year.

1.4 INTANGIBLE ASSETS

1.4.1 Initial Recognition

Identifiable non-monetary assets without physical substance which are held for use in the production or supply of services, for rental to others, or for administrative purposes are classified and recognised as intangible assets. The municipality recognizes an intangible asset only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalized. Research expenditure is recognised as an expense when incurred.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalized development costs are recorded as intangible assets and amortized from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years. Development assets are tested for impairment annually.

Intangible assets are initially recognised at cost. Where an intangible asset is acquired at no cost or for a nominal consideration, its cost is its fair value as at the date it is acquired. Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

The municipality does not recognize electricity servitudes arising from a legal right as intangible assets.

1.4.2 Website Costs

Any internal expenditure on the development and operation of the municipality's own website is accounted for in accordance with the Standard of GRAP on Intangible Assets. The nature of each activity for which expenditure is incurred (eg. Training employees and maintaining the website) and the website's stage of development or post-development are evaluated to determine the appropriate accounting treatment.

The stages of a website's development can be described as follows:

- (a) Planning – includes undertaking feasibility studies, defining objectives and specifications, evaluating alternatives and selecting preferences.
- (b) Application and infrastructure development- includes obtaining a domain name, purchasing and developing hardware and operating software, installing developed applications and stress testing.
- (c) Graphical design development-includes designing the appearance of web pages.
- (d) Content development- includes creating, purchasing, preparing and uploading information, either text or graphic, on the website before the completion of the website's development. This information may either be stored in separate database that are integrated into (or accessed from) the website or coded directly into the web pages.

1.4.3 Subsequent Measurement, Amortization and Impairment

Subsequently all intangible assets are measured at cost, less accumulated amortization and accumulated impairment losses.

Amortization is charged on a straight-line basis over the intangible assets' useful lives, which are estimated to be between 3 to 5 years. Where intangible assets are deemed to have an indefinite useful life, such intangible assets are not amortized, for example servitudes (excluding electricity servitudes) obtained by the municipality give the municipality access to land for specific purposes for an unlimited period - however, such intangible assets are subject to an annual impairment test.

Intangible assets are annually tested for impairment, including intangible assets not yet available for use. Where items of intangible assets have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation. The impairment loss is the difference between the carrying amount and the recoverable amount.

The estimated useful life and amortization method are reviewed annually. Any adjustments arising from the annual review are applied prospectively as a change in accounting estimate in surplus or deficit for the year.

1.4.4 Derecognition of Intangible Assets

The carrying amount of an intangible asset is derecognized on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from derecognition of an intangible asset is included in surplus or deficit when the asset is derecognized. Gains are not included in revenue.

Gains or losses are calculated as the difference between the net book value of assets (cost less accumulated amortization and accumulated impairment losses) and the sales proceeds. This is included in surplus or deficit for the year as a gain or loss on disposal of intangible assets.

1.5 INVESTMENT PROPERTY

1.5.1 Initial Recognition

Investment property includes property (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction or at a nominal value its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

Based on management's judgment, the following criteria have been applied to distinguish investment properties from owner occupied property or property held for resale:

- All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment Properties;
- Land held for a currently undetermined future use. (If the municipality has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation);
- Property that is being constructed or developed for future use as investment property;
- A building owned by the municipality (or held by the municipality under a finance lease) and leased out under one or more operating leases; and
- A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

The following assets do not fall in the ambit of Investment Property and shall be classified as Property, Plant and Equipment, Inventory or Non-Current Assets Held for Sale, as appropriate:

- Property intended for sale in the ordinary course of operations or in the process of construction or development for such sale;
- Property being constructed or developed on behalf of third parties;
- Owner-occupied property, including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal;
- Property that is leased to another entity under a finance lease;
- Property held to provide a social service and which also generates cash inflows, e.g. property rented out below market rental to sporting bodies, schools, low income families, etc; and
- Property held for strategic purposes or service delivery.

1.5.2 Subsequent Measurement - Fair Value Model

Investment property is measured using the fair value model. Investment property is carried at fair value, representing open market value determined annually by external valuers at the reporting date. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. A gain or loss arising from a change in the fair value of investment property is included in surplus or deficit for the year.

The carrying amount of an investment property is derecognized on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from derecognition of an investment property is included in surplus or deficit for the year when the asset is derecognized.

Gains or losses are calculated as the difference between the net book value of assets (fair value) and the sales proceeds.

1.6 FINANCIAL INSTRUMENTS

The municipality has various types of financial instruments and these can be broadly categorized as either *Financial Assets* or *Financial Liabilities*.

1.6.1 Financial Assets - Classification

A financial asset is any asset consisting of cash or a contractual right to receive cash. The municipality has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereto:

- Investments in Fixed Deposits (Banking Institutions, etc)
- Long-term Receivables
- Consumer Debtors
- Certain Other Debtors
- Short-term Investment Deposits
- Bank Balances and Cash

In accordance with GRAP 104, the Financial Assets of the municipality are classified as follows into the three categories allowed by this standard:

Type of Financial Asset	Classification in terms of GRAP 104
Short-term Investment Deposits – Call	Financial assets at amortized cost
Bank Balances and Cash	Financial assets at amortized cost
Long-term Receivables	Financial assets at amortized cost
Consumer Debtors	Financial assets at amortized cost
Other Debtors	Financial assets at amortized cost
Investments in Fixed Deposits	Financial assets at amortized cost

Financial assets at amortized cost are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets.

Cash and cash equivalents include cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorizes cash and cash equivalents as financial assets: loans and receivables.

1.6.2 Financial Liabilities - Classification

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity. The municipality has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereto:

- Long-term Liabilities
- Certain Other Creditors
- Bank Overdraft
- Short-term Loans
- Current Portion of Long-term Liabilities
- Consumer Deposits

In accordance with IAS 39.09, the *Financial Liabilities* of the municipality are classified into the following category as allowed by this standard

- Financial liabilities at amortized cost.

Financial liabilities at amortized cost are initially measured at fair value, net of transaction costs. These are subsequently measured at amortized cost using the Effective interest method, with interest expense recognised on an effective yield basis.

1.6.3 Initial and Subsequent Measurement

1.6.3.1 Financial Assets:

Financial assets at amortized cost are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortized cost using the Effective Interest Method less any impairment, with revenue recognised on an effective yield basis.

Financial assets are recognised on the trade date at which the municipality becomes a party to the contractual provisions of the instrument.

1.6.3.2 Financial Liabilities:

Financial Liabilities at amortized cost are initially measured at fair value net of transaction costs. Subsequently, these liabilities are measured at amortized cost using the effective interest method, with interest expense recognised on an effective yield basis.

Financial liabilities are recognised on the trade date at which the municipality becomes a party to the contractual provisions of the instrument.

1.6.4 Impairment of Financial Assets

Financial assets are assessed for indicators of impairment at reporting date. Financial assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with GRAP 104.

Initially Accounts Receivable are valued at fair value and subsequently carried at amortized cost using the effective interest rate method. An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year-end. Amounts receivable within 12 months from the date of reporting are classified as current.

A provision for impairment of trade receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The provision is made whereby the recoverability of Consumer Debtors is assessed individually or collectively after grouping the assets in financial assets with similar credit risk characteristics if individual assessment was not possible.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets and recognised in surplus or deficit for the year with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in surplus or deficit for the year.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through surplus or deficit for the year to the extent that the carrying amount of the instruments at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognised.

1.6.5 Derecognition of Financial Assets

The municipality derecognizes Financial Assets only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of Financial Assets due to non recoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred financial asset, the municipality continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

1.6.6 Derecognition of Financial Liabilities

The municipality derecognizes Financial Liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire.

1.7 RISK MANAGEMENT OF FINANCIAL ASSETS AND LIABILITIES

It is the policy of the municipality to disclose information that enables the user of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the municipality is exposed on the reporting date.

Risks and exposure are disclosed as follows:

1.7.1 Credit Risk

- Each class of financial assets is disclosed separately.
- Maximum exposure to credit risk not covered by collateral is specified.
- Financial assets covered by collateral are specified.

1.7.2 Liquidity Risk

Liquidity risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

- A maturity analysis for financial liabilities (where applicable) that shows the remaining undiscounted contractual maturities is disclosed in the notes to the annual financial statements.

1.7.3 Interest Risk

Interest rate risk originates from the uncertainty about the fair value or future cash flows of a financial instrument which fluctuate because of changes in market interest rates.

- Borrowings issued at variable rates expose the municipality to cash flow interest rate risk.
- Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

Management has assessed the impact of interest rate risk on the operations of the municipality and considers the risk to be negligible.

1.7.4 Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rate and equity prices will affect the municipality's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

1.8 INVENTORIES

Inventories comprising consumable stores, raw materials and finishing goods are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, and then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realizable value, determined on the weighted average cost.

Inventories are measured at the lower of cost and current replacement cost where they are held for:

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge

Unsold properties represent unsold units in economic selling schemes where the net realizable value of each unit is either nil or a nominal amount. As a consequence of the passage of time the municipality is not in a position to determine the cost of such inventory. Furthermore, the use of current replacement cost would not only distort the statement of financial position by inflating the value of inventories but would also result in a credit to the housing operating account contrary to section 14 of the Housing Act, 1998. Accordingly unsold properties are stated in the annual financial statements at net realizable value.

Redundant and slow-moving inventories are identified and written down from cost to net realizable value with regard to their estimated economic or realizable values.

1.9 NON-CURRENT ASSETS HELD-FOR-SALE AND DISCONTINUED OPERATIONS

1.9.1 Non-current assets held for sale

1.9.1.1 Initial Recognition

Non-current Assets and Disposal Groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Council must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

1.9.1.2 Subsequent Measurement

Non-current Assets (and Disposal Groups) classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortized) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

1.9.2 Discontinued operations

A discontinued operation is a component of the municipality that either has been disposed of or is classified as held for sale and:

- (a) represents a distinguishable activity, group of activities or geographical area of operations;
- (b) is part of a single co-ordinated plan to dispose of a distinguishable activity, group of activities or geographical area of operations; or
- (c) is a controlled entity acquired exclusively with a view to resale.

Discontinued operations are presented separately from continuing operations in the annual financial statements.

1.10 REVENUE RECOGNITION

1.10.1 General

Revenue from exchange transactions

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue comprises the fair value of the consideration received or receivable for the sale or rendering of services in the ordinary course of the municipality's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The municipality recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits or service potential will flow to the municipality and when specific criteria have been met for each of the municipality's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from non-exchange transactions

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

1.10.2 Revenue from Exchange Transactions

1.10.2.1 Service Charges

Service charges relating to electricity are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

1.10.2.2 Pre-paid Electricity

Revenue from the sale of electricity pre-paid meter cards are recognised at the point of sale. Revenue from the sale of electricity prepaid meter cards made in the last month of the financial year is recognised based on an estimate of the prepaid electricity consumed as at the reporting date with reference to the consumption patterns of the individual users.

1.10.2.3 Finance income

Interest earned on investments is recognised in surplus or deficit for the year on the time proportionate basis that takes into account the effective yield on the investment.

1.10.2.4 Tariff Charges

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorized tariff. This includes the issuing of licenses and permits.

1.10.2.5 Rentals

Revenue from the rental of facilities and equipment classified as operating leases is recognised on a straight-line basis over the term of the lease agreement, where such lease periods span over more than one financial year.

1.10.3 Revenue from Non-exchange Transactions

1.10.3.1 Rates and Taxes

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

1.10.3.2 Fines

Revenue from the issuing of fines is recognized when:

It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognized when the public prosecutor pays over to the municipality the cash actually collected on summonses issued.

1.10.3.3 Public contributions

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use. Where public contributions have been received and the municipality has not met the condition, a liability is recognised.

1.10.3.4 Revenue from Recovery of Unauthorized, Irregular, Fruitless and Wasteful Expenditure

Revenue from the recovery of unauthorized, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councilors or officials is virtually certain. Such revenue is based on legislated procedures.

1.11 GOVERNMENT GRANTS AND RECEIPTS

Income received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs, are recognised as Accounts Receivable in the period in which they become receivable.

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the liability and if it is the municipality's interest it is recognised as interest earned in surplus of deficit for the year.

1.12 PROVISIONS

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the obligation.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

1.13 EMPLOYEE BENEFITS

1.13.1 Short-term Employee Benefits

Remuneration to employees is recognised in surplus or deficit for the year as the services are rendered, except for non-accumulating benefits, which are only recognised when the specific event occurs.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as an accrual in the Statement of Financial Position.

Liabilities for annual and performance bonuses are recognized as they accrue to employees.

Annual bonuses accrue to employees on an annual basis, based on the employee contract. Performance bonuses accrue to senior managers on an annual basis, subject to certain conditions. These accruals are an estimate of the amount due to staff as at the financial year end.

1.13.2 Past service costs

Past service costs are recognised immediately in surplus or deficit, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

1.13.3 Defined Contribution Plans

A **defined contribution plan** is a plan under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in surplus or deficit for the year in which the service is rendered by the relevant employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. The municipality has no further payment obligations once the contributions have been paid.

1.13.4 Defined Benefit Plans

A **defined benefit plan** is a post-employment benefit plan other than a defined contribution plan.

For defined benefit plans the cost of providing the benefits is determined using the projected unit credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged to surplus or deficit for the year in which they arise.

1.13.4.1 Pension obligations

The municipality and its employees contribute to 4 different pension funds, namely Natal Joint Municipal Pension Fund and South African Local Authority Pension Fund. The KZN Municipal Pension Fund is a defined contribution fund. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year they become payable. Natal Joint Superannuation & Retirement Funds and Government Employee Pension Fund are defined benefit funds. The Natal Joint Provident Fund and South African Local Authority Pension Fund are defined contribution funds.

The schemes are funded through payments to fund administrator or trustee-administered funds, determined by periodic actuarial calculations.

Defined benefit plans have been accounted for as defined contribution plans in accordance with the requirements on multi-employer plans where sufficient information is not available to account for such plans as defined benefit plans. As the fund administrators do not have sufficient information available to allocate the shortfall on liabilities to individual employers, no liability is recognised for any shortfall of fund asset as compared to fund liabilities. Any surcharges that may be levied by the fund from time to time in order to compensate for shortfalls, are recognised as expenses in the period in which they become payable to the fund.

As surcharges are advised long in advance, based on actuarial valuations of the fund as a whole, the necessary provision for the payment thereof is made in the course of the municipality's normal budgeting processes."

1.13.4.2 Post-retirement Health Care Benefits:

The municipality has an obligation to provide Post-retirement Health Care Benefits to certain of its retirees. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and recognised actuarial gains and losses, adjusted by past service costs where applicable. The plan is unfunded. The present value of the defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and an appropriate discount rate. Valuations of these obligations are carried out every year by independent qualified actuaries.

Actuarial gains or losses are accounted for in full and are recognised in the Statement of Financial Performance.

1.13.4.3 Long-service Allowance

The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, as well as additional once-off leave calculated in terms of the rules of the scheme, after 10, 15, 20, 25, 30, 35, 40 and 45 years of continued service.

The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for in surplus or deficit for the year.

Actuarial gains or losses are accounted for in full and are recognised in surplus or deficit for the year.

1.14 LEASES

1.14.1 The Municipality as Lessee

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or Intangible Assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Corresponding liabilities are included in the Statement of Financial Position as Finance Lease Liabilities. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred. Lease payments are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to Property, plant, equipment or Intangible Assets. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised as an expense in surplus or deficit for the year on a straight-line basis over the term of the relevant lease.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

1.14.2 The Municipality as Lessor

Operating lease rental income is recognised on a straight-line basis over the term of the relevant lease.

1.15 BORROWING COSTS

The municipality capitalises borrowing costs incurred that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset are recognised as an expense in surplus or deficit for the year.

It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established - the municipality expenses borrowing costs when it is inappropriate to capitalise it. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete.

1.16 VALUE ADDED TAX

The Municipality accounts for Value Added Tax on the payments basis.

1.17 CASH AND CASH EQUIVALENTS

Cash includes cash-on-hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks and investments in financial instruments, net of bank overdrafts.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

1.18 UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

1.19 IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000), and the Public Office Bearers Act (Act No 20 of 1998) or is in contravention of the Municipality's or Municipal Entities' supply chain management policies. Irregular expenditure excludes unauthorised expenditure. Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

1.20 FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

1.21 CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND ERRORS

Changes in accounting policies due to adoption of newly effective Standards of GRAP have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy or where allowed transitional provisions had been adopted. In such cases the municipality would restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Errors are corrected retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality would restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

1.22 RELATED PARTIES

Individuals, including councilors, as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.23 EVENTS AFTER THE REPORTING DATE

Events after the reporting date that have been classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

1.24 COMPARATIVE INFORMATION

1.24.1 Prior year comparatives

When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are reclassified. The nature and reasons for the reclassification are disclosed.

1.25 CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes to the annual financial statements.

1.26 TREATMENT OF ADMINISTRATION AND OTHER OVERHEAD EXPENSES

The costs of internal support services are transferred to the various services and departments to whom resources are made available.

1.27 RESERVES

1.27.1 Capital Replacement Reserve (CRR)

In order to finance capital assets from internal sources, amounts are transferred out of the accumulated surplus into the Capital Replacement Reserve (CRR) in terms of the funding and reserves policy adopted by the Municipality. The cash in the CRR can only be used to finance capital expenditure appropriated in an approved budget. The CRR is reduced and the accumulated surplus is credited by a corresponding amount when the amounts in the CRR are utilized.

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NOTE 2 - 57: OTHER NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2. INVENTORY

Stores inventory:

Consumable stores
Stationery stores
Electrical maintenance spares
E Card replacement

Total inventory

2017	2016
R	R
609 694	565 347
485 281	495 408
1 747 510	1 773 115
5 609	1 624
2 848 094	2 835 494

No impairments of the values of inventory have been written off as management considers that all stores are useable and any losses on ultimate realisation are immaterial. Periodically, physical stock counts are carried out and any obsolete and redundant items are identified and written off under Council authority.

3. RECEIVABLES FROM EXCHANGE TRANSACTIONS

Receivables from exchange transactions

Less: Allowance for doubtful debts

14 859 003	13 375 993
-6 775 814	-6 683 967
8 083 190	6 692 027

Other receivables from exchange transactions

Salary control
Other sundry receivables
Survey control

-	3 343
96 804	30 028
1 209 208	1 209 208
9 389 202	7 934 606

Receivables from exchange transactions

Management have considered the effects of any impairment in the values of outstanding and the value of the allowance for doubtful debts. The allowance is adequate to account for any material losses expected to arise from any adjustments that are required to be made to outstanding balances.

Receivables from exchange transactions

Electricity
Housing
Refuse
Sundries

5 612 213	5 028 178
1 918 553	1 899 609
3 114 923	2 492 989
4 213 314	3 955 217
14 859 003	13 375 993

Amounts written off as doubtful debts

As a percentage of total operating revenue

Debtors - number of days outstanding

735	306 132
0.0002%	0.07%
139	112

Age analysis

Electricity

Current (0 to 30 days)
31 to 60 days
61 to 90 days
91 to 120 days
121 days and over

4 173 813	3 764 419
57 616	109 498
41 894	397 759
31 916	84 642
1 306 973	671 860

5 612 213 **5 028 178**

Age analysis

Refuse

Current (0 to 30 days)
31 to 60 days
61 to 90 days
91 to 120 days
121 days and over

1 155 973	1 094 970
98 058	121 354
78 052	84 438
64 074	65 748
1 718 766	1 126 479

3 114 923 **2 492 989**

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	2017	2016
	R	R
RECEIVABLES FROM EXCHANGE TRANSACTIONS (CONTINUE)		
Sundries		
Current (0 to 30 days)	613 311	379 926
31 to 60 days	3 896	129 704
61 to 90 days	32 356	4 165
91 to 120 days	70 584	77 896
121 days and over	3 493 167	3 363 526
	4 213 314	3 955 217
Housing		
Current (0 to 30 days)	25 085	593 292
31 to 60 days	21 051	4 727
61 to 90 days	4 689	4 795
91 to 120 days	4 590	4 616
121 days and over	1 863 138	1 292 179
	1 918 553	1 899 609
Reconciliation of the allowance for doubtful debts for receivables from exchange transactions:		
Balance at the beginning of the year	6 683 967	5 707 309
Contributions to allowance: From operating account	92 582	1 126 752
From housing operating account	-	156 038
	6 776 549	6 990 099
Doubtful debts written off against allowance	735	306 132
Balance at the end of the year	6 775 814	6 683 967
Summary of Receivables by Consumer Classification		
Residential	8 891 979	7 857 536
Commercial and Industrial	3 696 556	3 829 642
National and Provincial Government	1 561 197	757 801
Payments in advance	709 271	931 014
	14 859 003	13 375 993
4. VAT RECEIVABLE/ (PAYABLE)		
VAT receivable	3 438 057	10 416 514
VAT payable	-1 062 005	-776 936
Total VAT Receivable/(Payable)	2 376 052	9 639 578
VAT is payable on the receipts basis. Only once payment is received from debtors, VAT is paid over to SARS.		
5. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS		
Receivables from non-exchange transactions		
Rates and penalties	35 006 371	24 591 466
Less: Allowance for doubtful debts	-31 622 028	-17 179 008
	3 384 343	7 412 458
Other receivables from non-exchange transactions		
Traffic fines	93 646 583	62 380 040
Less: Allowance for doubtful debts	-88 200 686	-58 752 408
	5 445 897	3 627 631
Payments made in advance	338 668	2 294 493
Accrued income	1 046 211	1 160 143
	10 215 119	14 494 725
Age analysis		
Rates and penalties		
Current (0 to 30 days)	4 153 277	1 986 713
31 to 60 days	441 211	407 032
61 to 90 days	368 521	315 207
91 to 120 days	319 548	614 441
121 days and over	29 723 814	21 268 073
	35 006 371	24 591 466

UMLALAZI MUNICIPALITY
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	2017 R	2016 R
Reconciliation of the allowance for doubtful debts for rates and penalties:		
Balance at the beginning of the year	17 179 008	5 906 619
Contributions to allowance: From operating account	14 443 020	11 377 065
	31 622 028	17 283 684
Doubtful debts written off against allowance	-	104 676
Balance at the end of the year	31 622 028	17 179 008
Reconciliation of the allowance for doubtful debts for traffic fines:		
Balance at the beginning of the year	58 752 408	32 338 168
Contributions to allowance: From operating account	29 448 278	26 414 240
	88 200 685	58 752 408
Doubtful debts written off against allowance	-	-
Balance at the end of the year	88 200 685	58 752 408
Summary of Rates by Consumer Classification		
Residential	6 914 845	5 093 648
Commercial and Industrial	1 327 077	956 772
National and Provincial Government	25 860 300	17 673 809
Payments in advance	904 149	867 236
	35 006 371	24 591 465
Summary of allowance for doubtful debts for the year:		
Receivables from exchange transactions: From operating account	92 582	1 126 752
From housing operating account	6 962	-
Receivables from non - exchange transactions:		
Rates and penalties: From operating account	14 443 020	11 377 065
Traffic fines From operating account	29 448 278	26 414 240
	43 990 841	38 918 057
6. LOANS RECEIVABLE		
Deposits with creditors	739 165	739 165
	739 165	739 165
Housing loans	659 170	653 812
Less: Current portion transferred to current receivables		
Housing loans	-6 956	-4 645
Old age home	-15 349	-15 349
	-22 305	-19 995
Total	636 865	633 817
Housing selling scheme loans		
Loans have been granted to individuals who qualified in terms of the KwaZulu-Natal Department of Human Settlements programme.		
The loans are repayable over terms ranging from 5 to 30 years at rates varying between 11.25% and 13.5%		
7. CASH AND CASH EQUIVALENTS		
The municipality has the following bank account:		
Current account (Primary Bank Account)		
First National Bank Limited, Eshowe Branch - Account No. 52 191 090 523		
Bank statement balance at the beginning of the year	2 322 780	7 687 426
Bank statement balance at the end of the year	2 995 385	2 322 780
Cash book balance at the beginning of the year	11 685 976	6 784 042
Cash and cash equivalents consist of the following:		
Cash book balance at the end of the year	3 539 442	11 685 976
Petty cash	24 700	24 700
Floats	1 440	1 440
Short-term investment deposits	82 557 156	100 726 446
	86 122 738	112 438 562
The municipality has the following short-term investment deposit accounts:		
Standard Bank	First National Bank	First National Bank
Acc No 068 872 208-001	Acc No 62 002 158 758	Acc No 62 151 319 186
Acc No 068 872 208-002	Acc No 62 024 283 038	Acc No 62 158 037 377
Acc No 068 872 208-004	Acc No 62 071 691 309	Acc No 62 239 675 260
Acc No 068 872 208-005	Acc No 62 094 589 036	Acc No 62 299 224 594
Acc No 068 872 208-008	Acc No 62 120 320 081	Acc No 62 378 736 593
Acc No 068 872 208-009	Acc No 62 124 937 246	Acc No 74238125451
		Investec
		Acc No 1100 - 511779-500
		Acc No 1100 - 511779-501
		Nedbank
		Acc No 371650241741
		Acc No 371650241821
		Acc No 371650241901
		Acc No 371650242041
		Acc No 371650242121

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

8. PROPERTY, PLANT AND EQUIPMENT

	Land	Community assets	Vehicles	Roads	Storm water	Electrical	Furniture and equipment	Computer equipment	Machinery and equipment	Assets under construction	Total
Reconciliation of carrying value											
Carrying values at 01 July 2016	131 596 827	208 279 999	13 371 615	268 686 358	39 012 488	44 901 494	3 251 754	4 291 630	4 185 921	61 652 339	779 230 420
Cost	131 596 827	284 993 259	25 968 604	426 715 530	89 331 184	67 571 048	7 302 210	6 995 015	8 792 625	61 652 339	1 110 918 642
Cost	131 596 827	284 993 259	25 968 604	426 715 530	89 331 184	67 571 048	7 302 210	6 995 015	8 792 625	61 652 339	1 110 918 642
Accumulated depreciation	-	-71 211 960	-12 445 433	-156 039 047	-48 849 119	-21 306 143	-3 870 645	-2 660 876	-4 524 939	-	-320 908 162
	-	-71 211 960	-12 445 433	-156 039 047	-48 849 119	-21 306 143	-3 870 645	-2 660 876	-4 524 939	-	-320 908 162
Accumulated impairment	-	-5 501 301	-151 556	-1 990 125	-1 469 577	-1 363 411	-179 811	-42 509	-81 765	-	-10 780 055
	-	-5 501 301	-151 556	-1 990 125	-1 469 577	-1 363 411	-179 811	-42 509	-81 765	-	-10 780 055
Additions infrastructure	-	-	-	-	-	-	-	-	-	62 082 769	62 082 769
Assets under construction released	-	6 357 264	-	40 661 293	4 146 092	-	-	-	-	-51 164 649	0
Acquisitions	-	1 248 455	4 051 614	849 725	77 059	665 273	628 742	4 460 197	496 683	-	12 477 747
Disposals	-1 932 663	-1 401 252	-2 458 970	-15 271 977	-	-	-409 779	-863 177	-379 181	-	-22 717 000
Depreciation	-	-14 698 062	-2 762 867	-15 032 359	-2 737 957	-2 482 887	-865 362	-1 252 833	-1 006 671	-	-40 838 999
Based on cost	-	-14 698 062	-2 762 867	-15 032 359	-2 737 957	-2 482 887	-865 362	-1 252 833	-1 006 671	-	-40 838 999
Carrying value of disposals	-	1 284 905	1 775 149	10 047 485	-	-	333 471	627 554	279 996	-	14 348 560
Cost/ revaluation	-	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-	-	-	-	-	-
Impairment loss	-	-12 852	-63 988	-	-	-	-13 400	-43 264	-14 880	-	-148 385
Impairment loss - disposals	-	-	123 716	134 734	-	-	44 593	42 239	77 951	-	423 233
Carrying values at 30 June 2017	129 664 164	201 058 457	14 036 270	290 075 257	40 497 681	43 083 879	2 970 018	7 262 346	3 639 819	72 570 459	804 858 353
	129 664 164	291 197 726	27 561 248	452 954 570	93 554 335	68 236 321	7 521 172	10 592 034	8 910 127	72 570 459	1 162 762 158
Cost	129 664 164	291 197 726	27 561 248	452 954 570	93 554 335	68 236 321	7 521 172	10 592 034	8 910 127	72 570 459	1 162 762 158
Accumulated depreciation	-	-84 625 117	-13 433 151	-161 023 922	-51 587 076	-23 789 029	-4 402 536	-3 286 154	-5 251 614	-	-347 398 600
	-	-84 625 117	-13 433 151	-161 023 922	-51 587 076	-23 789 029	-4 402 536	-3 286 154	-5 251 614	-	-347 398 600
Accumulated impairment	-	-5 514 153	-91 828	-1 855 391	-1 469 576	-1 363 411	-148 618	-43 535	-18 694	-	-10 505 207
	-	-5 514 153	-91 828	-1 855 391	-1 469 576	-1 363 411	-148 618	-43 535	-18 694	-	-10 505 207
Carrying values at 30 June 2017	129 664 164	201 058 457	14 036 270	290 075 257	40 497 681	43 083 879	2 970 018	7 262 346	3 639 819	72 570 459	804 858 353

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8. PROPERTY, PLANT AND EQUIPMENT (CONTINUE)

	Land	Community assets	Vehicles	Roads	Storm water	Electrical	Furniture and equipment	Computer equipment	Machinery and equipment	Assets under construction	Total
Reconciliation of carrying value											
Carrying values at 01 July 2015	130 846 827	124 410 441	12 969 383	268 256 628	42 206 187	47 416 684	2 624 145	2 218 337	3 163 266	32 292 397	666 404 294
Cost	130 846 827	186 432 497	23 882 009	414 602 933	88 291 676	66 116 105	5 774 068	4 207 067	7 021 007	32 292 397	959 466 588
Cost	130 846 827	186 432 497	23 882 009	414 602 933	88 291 676	66 116 105	5 774 068	4 207 067	7 021 007	32 292 397	959 466 588
Accumulated depreciation	-	-62 022 056	-10 912 626	-146 346 302	-46 085 488	-18 699 423	-3 149 923	-1 988 730	-3 857 741	-	-293 062 289
	-	-62 022 056	-10 912 626	-146 346 302	-46 085 488	-18 699 423	-3 149 923	-1 988 730	-3 857 741	-	-293 062 289
Accumulated impairment	-	-3 707 743	-358 212	-935 137	-824 431	-	-2 947	-3 217	-97 668	-	-5 929 355
	-	-3 707 743	-358 212	-935 137	-824 431	-	-2 947	-3 217	-97 668	-	-5 929 355
Additions infrastructure	-	-	-	-	-	-	-	-	-	49 482 779	49 482 779
Assets under construction released	-	1 677 443	-	18 305 121	140 273	-	-	-	-	-20 122 837	-
Acquisitions	750 000	3 496 434	3 594 641	2 539 284	899 235	1 454 943	1 344 428	2 929 318	1 830 842	-	18 839 125
Donated assets	-	93 424 933	-	-	-	-	281 990	-	179 640	-	93 886 563
Disposals	-	-38 048	-1 508 046	-8 731 809	-	-	-98 276	-141 370	-238 864	-	-10 756 413
Depreciation	-	-9 212 524	-2 512 608	-14 915 115	-2 763 631	-2 606 720	-798 601	-784 647	-843 889	-	-34 437 735
Based on cost	-	-9 212 524	-2 512 608	-14 915 115	-2 763 631	-2 606 720	-798 601	-784 647	-843 889	-	-34 437 735
Carrying value of disposals	-	-	-	-	-	-	-	-	-	-	-
Cost/ revaluation	-	22 620	979 801	5 222 370	-	-	77 879	112 501	176 691	-	6 591 862
Accumulated depreciation	-	-	-	-	-	-	-	-	-	-	-
Impairment loss	-	-1 797 379	-151 556	-1 123 441	-645 147	-1 363 411	-179 465	-42 505	-32 990	-	-5 335 895
Impairment loss - disposals	-	3 822	358 212	68 454	-	-	2 601	3 214	48 893	-	485 195
	-	-	-	-	-	-	-	-	-	-	-
Carrying values at 30 June 2016	131 596 827	208 279 998	13 371 615	268 686 354	39 012 489	46 264 905	3 251 755	4 291 631	4 185 920	61 652 339	779 230 420
	131 596 827	284 993 259	25 968 604	426 715 530	89 331 184	67 571 048	7 302 210	6 995 015	8 792 625	61 652 339	1 110 918 642
Cost	131 596 827	284 993 259	25 968 604	426 715 530	89 331 184	67 571 048	7 302 210	6 995 015	8 792 625	61 652 339	1 110 918 642
Accumulated depreciation	-	-71 211 960	-12 445 433	-156 039 047	-48 849 119	-21 306 143	-3 870 645	-2 660 876	-4 524 939	-	-320 908 161
	-	-71 211 960	-12 445 433	-156 039 047	-48 849 119	-21 306 143	-3 870 645	-2 660 876	-4 524 939	-	-320 908 161
Accumulated impairment	-	-5 501 301	-151 556	-1 990 125	-1 469 577	-1 363 411	-179 811	-42 509	-81 765	-	-10 780 055
	-	-5 501 301	-151 556	-1 990 125	-1 469 577	-1 363 411	-179 811	-42 509	-81 765	-	-10 780 055
Carrying values at 30 June 2016	131 596 827	208 279 998	13 371 615	268 686 354	39 012 489	46 264 905	3 251 755	4 291 631	4 185 920	61 652 339	779 230 420

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	2017 R	2016 R
9. ASSETS UNDER CONSTRUCTION		
For the year ended 30 June 2016:		
<u>Buildings</u>		
New testing station (Eshowe)		1 003 402
Devine Life Society of SA crèches		1 170 000
Gingindlovu fire station		2 693 302
<u>Community halls</u>		
Sqwanjana hall		3 586 083
<u>Sport and recreation</u>		
Kwayabu Sports field		3 705 999
Kwabulawayo Sports field		17 815 444
Nkume Sports field		2 484 208
<u>Road transport</u>		
Matshamhlope road		2 843 754
King Dinuzulu suburb bus route		859 523
Bele road		5 328 519
Link road: Industrial area and Eshowe taxi rank		133 693
Kangela street rehabilitation		14 193 267
Mtipela road		841 118
Naickerville/ Sandlwana High School intersection		259 150
Rehabilitation of urban roads		4 734 878
For the year ended 30 June 2017:		
<u>Buildings</u>		
New testing station (Eshowe)	1 003 402	
Devine Life Society of SA crèches	1 170 000	
Redundant Storage Asset Building	1 287 697	
<u>Community halls</u>		
Sqwanjana hall	7 589 249	
<u>Sport and recreation</u>		
Kwayabu Sports field	4 040 122	
Kwabulawayo Sports field	21 630 670	
Mvutshini Sportsfield	311 347	
Nkume Sportsfield	2 484 208	
<u>Road transport</u>		
Eshowe Bus & Taxi Rank	797 417	
Link road: Industrial area and Eshowe taxi rank	8 533 226	
Emtilombo Causeway	237 313	
Gingindlovu Stormwater	96 600	
Gingindlovu Main Street	607 259	
Hlungwini Gravel Road	513 803	
Mbangayiya Access Road & Causeway	625 343	
Mbhabha Causeway	252 558	
Mitchell Street	217 500	
Mtipela road	7 216 341	
KDS Passage Walkway	248 785	
Qhiko Gravel Road	613 672	
Rehabilitation of CBD Roads	1 813 371	
King Dinuzulu suburb bus route	11 280 577	
	72 570 459	61 652 339
10. REPAIRS AND MAINTENANCE ON INFRASTRUCTURE ASSETS		
Community assets	1 212 596	1 182 143
Roads and storm water	11 756 103	11 882 834
Electricity	1 986 734	2 377 123
(Extracted from Note 35)	14 955 433	15 442 101
11. INTANGIBLE ASSETS		
Carrying values at the beginning of the year	619 252	480 615
Cost	1 837 576	1 482 236
Prior year error correction on assets		
Accumulated depreciation	-1 218 324	-1 001 621
Additions	456 383	355 340
Depreciation	-276 569	-216 703
Carrying values at the end of the year	799 066	619 252
Cost	2 293 959	1 837 576
Accumulated depreciation	-1 494 893	-1 218 324
Intangible assets are initially recognised at cost and are carried at cost less depreciation.		
The municipality does not have any internally generated intangible assets.		

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	2017	2016
	R	R
12. INVESTMENT PROPERTY CARRIED AT FAIR VALUE		
Investment property held by the municipality is as follows:		
i) land leased for cane farming		
ii) land leased to Government Departments		
iii) land and buildings leased to sports associations		
iv) crematorium at Eshowe cemetery		
v) additional pieces of land leased by property owners		
The fair value of these properties as valued by the Council's valuers, Messrs. Umhlaba Geomatics Inc.		
Carrying values at the beginning of the year	16 257 000	16 257 000
Cost	16 257 000	16 257 000
Acquisitions	-	-
Fair value adjustment	-	-
Fair value of disposals	-	-
Carrying values at the end of the year	16 257 000	16 257 000
Cost	16 257 000	16 257 000
Properties classified as investment properties at municipal value	6 001 000	8 122 400
Rental income derived from these properties amount to	1 145 716	868 498
13. HERITAGE ASSETS		
Carrying values at the beginning of the year	10 311 344	1 411
Cost	10 311 344	1 411
Acquisitions		
Fair value adjustment	-	10 309 933
Prior year error correction on assets		
Carrying values at the end of the year	10 311 344	10 311 344
Cost	10 311 344	10 311 344
14. INVESTMENTS		
Unlisted		
Shares in co-operative - Coastal Farmers	1 000	1 000
	1 000	1 000
Council's valuation of unlisted investments		
15. CONSUMER DEPOSITS		
Refuse	518 788	432 815
Electricity	1 392 667	1 330 849
	1 911 455	1 763 664
Guarantees held in lieu of electricity deposits	319 750	1 119 750
16. PAYABLES FROM EXCHANGE TRANSACTIONS		
Over and unders (Cashiers)	12 910	10 655
Deposits - other	73 299	36 935
Salary control	4 331	1 732
Retention monies	7 994 926	6 330 041
Unidentified direct deposits	604 518	955 540
Payments received in advance	2 625 775	2 726 262
Accrued expenditure	2 636 657	5 572 672
Creditors control	20 144 811	27 713 363
Accrued staff leave (Refer note 42)	5 270 748	4 552 044
Payables from exchange transactions	39 367 976	47 899 242

The fair value of trade and other payables approximate their carrying amounts. Trade and other payables are normally settled on 30 day terms in accordance with the MFMA. No interest is charged for the first 30 days from the date of receipt of the invoice/statement. Thereafter interest is charged in accordance with the credit policies of the various individual creditors.

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17. UNSPENT CONDITIONAL GRANTS AND RECEIPTS

	Balance unspent at 30/06/2017	Received during 2017	Interest earned 2017	Conditions met transferred to revenue	Returned to National Treasur 2017	Balance unspent at 30/06/2016	Received during 2016	Interest earned 2016	Conditions met transferred to revenue	Returned to National Treasur 2016	Balance unspent at 30/06/2015
	R	R	R	R	R	R	R	R	R	R	R
DEPARTMENT OF CO-OPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS											
Disaster management grant	-0	-	-	-2 192 160	-	2 192 160	9 100 000		-6 907 840		-
Support to community service centres grant	130 075	-	-	-332 797	-	462 871	500 000		-37 129		-
Small town rehabilitation grant	-	-	-	-2 847 590	-	2 847 590	3 000 000		-152 410		-
LGSETA Training grant	-	61 200	-	-61 200		-					-
	130 075	61 200	-	-5 433 747		5 502 622	12 600 000	-	-7 097 378	-	-
NATIONAL TREASURY											
Municipal Systems Improvement Grant	-					-	930 000		-930 000	-490 611	490 611
Municipal Infrastructure Grant	-	35 539 000	-	-35 539 000	-1 342 477	1 342 477	39 090 000		-40 702 416	-810 000	3 764 893
Financial Management Grant	-	1 625 000	-	-1 625 000			1 600 000		-1 600 000	-61 241	61 241
Expanded public works programme integrated grant	0	2 924 000	-	-2 924 000	-403 841	403 841	3 037 000		-2 633 159		-
	0	40 088 000	-	-40 088 000	-1 746 318	1 746 318	44 657 000	-	-45 865 575	-1 361 852	4 316 745
DEPARTMENT OF HUMAN SETTLEMENTS											
Sunnydale Low Cost Housing	393 972	-	-	-	-	393 972					393 972
Rural housing project	-					-					-
	393 972	-	-	-	-	393 972	-	-	-		393 972
DEPARTMENT OF ARTS AND CULTURAL											
Community library services grant	-	-	-	-151 246		151 246	361 000		-350 524		140 770
	-	-	-	-151 246		151 246	361 000	-	-350 524	-	140 770
DEPARTMENT OF SPORT AND RECREATION											
Infrastructure - Sport Facilities	0					0			-891 031		891 031
Maintenance of facilities	321 210	600 000	-	-278 790	-	-0			-62 488		62 488
	321 210	600 000	-	-278 790		0	-	-	-953 519	-	953 519
DEPARTMENT OF MINERALS AND ENERGY											
Integrated national electrification programme grant	-	8 000 000	-	-8 000 000	-5 651 688	5 651 688	8 000 000		-7 779 441	-863 000	6 294 129
	-	8 000 000	-	-8 000 000	-5 651 688	5 651 688	8 000 000	-	-7 779 441	-863 000	6 294 129
KING CETSHWAYO DISTRICT MUNICIPALITY											
Informal traders training grant	-	80 000		-80 000		-					-
Coastal management programme grant	180 000	180 000	-	-	-	-					-
	180 000	260 000	-	-80 000	-	-	-	-	-	-	-
Unspent conditional grants	1 025 257	49 009 200	-	-54 031 783	-7 398 006	13 445 846	65 618 000	-	-62 046 437	-2 224 852	12 099 135
DONATIONS AND PUBLIC CONTRIBUTIONS											
Electrical network upgrade	3 204 065	-	84 885	-1 293 365		4 412 545	3 700 000	37 876			674 669
Dorothy Irons bursary fund	0	2 784	-	-20 820		18 036		984			17 052
Indigent support	295 364	-	17 733	-1 418		279 049		14 896			264 153
SMME Establishment	2 086 581		143 083			1 943 498		47 617			1 895 881
Unspent donations and public contributions	5 586 010	2 784	245 700	-1 315 603		6 653 128	3 700 000	101 373	-	-	2 851 756
UNSPENT CONDITIONAL GRANTS AND RECEIPTS	6 611 267	49 011 984	245 700	-55 347 385	-7 398 006	20 098 974	69 318 000	101 373	-62 046 437	-2 224 852	14 950 892

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	2017	2016
	R	R
18. LOANS PAYABLE		
Annuity loans	4 113 788	4 456 603
	4 113 788	4 456 603
LESS : Current portion transferred to current liabilities	-342 816	-342 816
Total loans payable	3 770 972	4 113 788
(Refer to Appendix A for more detail)		
Annuity loans		
Bear interest of 12.422% per annum, and is redeemed in bi-annual instalments, including interest, over a period of 20 years.		
Fair value impairments		
Long term loans are recorded at the actual liability to loan creditors. No impairment, if any has been recognised.		
19. EMPLOYEE BENEFITS		
Current portion of post retirement medical benefits (Note 21.1)	664 000	415 000
Current portion of long service awards and retirement gifts (Note 21.2)	562 000	473 000
Performance bonuses accrual	607 191	709 496
Employee bonuses accrual	2 984 598	2 630 847
Employee overtime/ standby allowances accrual	410 207	323 233
Total current employee benefits	5 227 996	4 551 575
Performance bonuses accrual		
Balance at the beginning of the year	709 496	664 390
Contributions to provisions	385 737	413 800
Expenditure incurred	-488 042	-368 695
Balance at the end of the year	607 191	709 496
<u>Performance bonuses accrual</u>		
Performance bonuses accrue to employees on an annual basis, subject to certain conditions. The accrual is an estimate of the amount due to staff as at the financial year end.		
Employee bonus accrual		
Balance at the beginning of the year	2 630 847	2 075 447
Contributions to provisions	2 897 774	2 605 589
Expenditure incurred	-2 544 023	-2 050 189
Balance at the end of the year	2 984 598	2 630 847
<u>Employee bonus accrual</u>		
Annual bonuses accrue to employees on an annual basis, based on the employee contract. These accruals are an estimate of the amount due to staff as at the financial year end.		
Employee overtime/ standby allowances		
Balance at the beginning of the year	323 233	485 655
Contributions to provisions	410 207	323 233
Expenditure incurred	-323 233	-485 655
Balance at the end of the year	410 207	323 233
<u>Employee overtime/ standby allowances accrual</u>		
An accrual is done for the overtime/ standby allowances that accrued to the employees with regards to the financial year.		
20. PROVISIONS		
Provision for rehabilitation of landfill site		
Balance at the beginning of the year	5 063 439	4 888 244
Contribution to provision	-	175 195
Expenditure incurred	-5 063 439	-
Adjustment of over provision	18 590	-
Balance at the end of the year	-	5 063 439
The rehabilitation of the council's landfill site in Eshowe is completed.		

UMLALAZI MUNICIPALITY
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21. EMPLOYEE BENEFIT OBLIGATIONS

21.1 Provision for post retirement medical benefits

The Council operates a defined medical aid benefit scheme for the benefit of its permanent employees. Post-retirement medical aid benefits are offered to all employees by subsidising a portion of the medical aid provision after retirement.

An actuarial valuation was carried out at 30 June 2017 and the full liability has been raised which relates to retired employees and existing employees. The main assumptions used by the actuary are:

Discount rate per annum
Health care cost inflation rate
Net effective discount rate
Medical benefit inflation (long term) CPI increases

Sensitivity analysis:

Mortality rate

Deviations from the assumed level of mortality experience of the current employees and the continuation members (pensioners) will have a large impact on the actual cost to the Municipality, if the actual rates of mortality turns out higher than the rates assumed in the valuation basis, the cost to the Municipality in the form of subsidies will reduce and vice versa.

We have illustrated the effect of higher and lower mortality rates by increasing and decreasing the mortality rates by 20%. The effect is as follows:

	Mortality rate minus 20%	Valuation Assumption	Mortality rate plus 20%
Total accrued liability	15 110 000	14 138 000	13 300 000
Interest cost	1 526 000	1 426 000	1 340 000
Service cost	718 000	664 000	617 000

Medical aid inflation

The cost of the subsidy after retirement is dependent on the increase in the contributions to the medical aid scheme before and after retirement. The rate at which these contributions increase will thus have a direct effect on the liability of future retirees.

We have tested the effect of a 1% p.a change in the medical aid inflation. The effect is as follows:

	Medical aid inflation-minus 1%	Valuation Assumption	Medical aid inflation-plus 1%
Total accrued liability	13 517 000	14 138 000	14 619 000
Interest cost	1 362 000	1 426 000	1 476 000
Service cost	619 000	664 000	697 000

Accrued liability at 30 June 2016

Future - service cost
Interest cost
Expected benefits payments
Actuarial loss/ (gain)
Total annual expense

Projected accrued liability at 30 June 2018

Total liability
Current portion of long term liability

Long term

(Note 19)

2017	2016
R	R
Yield curve CPI + 1%	Yield curve CPI + 1%
Yield curve based Difference between nominal and yield curves	Yield curve based Difference between nominal and yield curves
14 138 000	11 959 000
664 000	415 000
1 426 000	1 229 000
-519 000	-503 000
-	-
1 571 000	1 141 000
15 709 000	13 100 000
14 138 000	11 959 000
-664 000	-415 000
13 474 000	11 544 000

21.2 Provision for long-service awards

The Council offers employees leave awards that may be exchanged for cash on certain anniversaries of commencing service and a retirement gift determined by reference to length of service.

An actuarial valuation was carried out at 30 June 2017 and the full liability has been raised. The main assumption used by the actuary are:

Discount rate per annum
General salary inflation rate (long term)
Net effective discount rate
Benchmark inflation (equal to salary inflation)

Yield curve
CPI + 1%

Yield curve based
Difference between
nominal and yield
curves

Yield curve
CPI + 1%

Yield curve based
Difference between
nominal and yield
curves

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EMPLOYEE BENEFIT OBLIGATIONS (CONTINUE)

Sensitivity analysis:

Withdrawal rate

Deviations from the assumed level of withdrawal experience of the eligible employees will have a large impact on the actual cost to the Municipality. If the actual rates of withdrawal turns out to be higher than the rates assumed in the valuation basis, then the cost to the Municipality in the form of benefits will reduce and vice versa.

We have illustrated the effect of higher and lower withdrawal rates by increasing and decreasing the withdrawal rates by 20%. The effect is as follows:

	Withdrawal rate minus 20%	Valuation Assumption	Withdrawal rate plus 20%
Total accrued liability	5 221 000	4 878 000	4 575 000
Interest cost	533 000	495 000	462 000
Service cost	630 000	562 000	505 000

Normal salary inflation

The cost of the long service awards is dependent on the increase in the annual salaries paid to employees. The rate at which salaries increase will thus have a direct effect on the liability of future employees.

We have tested the effect of a 1% p.a change in the normal salary inflation assumption. The effect is as follows:

	Normal salary inflation-minus 1%	Valuation Assumption	Normal salary inflation-plus 1%
Total accrued liability	4 530 000	4 878 000	5 267 000
Interest cost	457 000	495 000	537 000
Service cost	509 000	562 000	622 000

Accrued liability at 30 June 2017

Future - service cost
Interest cost
Expected benefits payments
Actuarial loss/ (gain)
Total annual expense

4 878 000	4 477 000
562 000	473 000
495 000	520 000
-472 000	-446 000
-	-
585 000	547 000

Projected accrued liability at 30 June 2018

5 463 000	5 024 000
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Total liability
Current portion of long term liability
Long term

(Note 19)

4 878 000	4 477 000
-562 000	-473 000
4 316 000	4 004 000

Total employee benefit obligations

17 790 000	15 548 000
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22. HOUSING OPERATING ACCOUNT

Government loans extinguished in 1998
Instalments received from borrowers
Accumulated deficit

5 380 172	4 424 698
6 264 211	6 706 482
-1 927 790	-1 921 066

9 716 593	9 210 114
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Fixed assets
Debtors - short term
Debtors - long term
Short term deposit - external
Bank balance at the end of the year

-	-
1 918 553	1 899 609
659 170	653 812
6 264 211	6 706 482
874 658	-49 789

Total Housing Operating Account assets and liabilities

9 716 593	9 210 114
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UMLALAZI MUNICIPALITY
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	2017	2016
	R	R
23. ACCUMULATED SURPLUS		
Accumulated surplus/ (deficit) at the beginning of the year	810 224 164	680 236 416
Operating (deficit)/ surplus for the year	11 988 643	130 821 308
Funding of capital projects	15 935 159	6 827 047
Appropriations for the year :		
Prior year adjustments	-8 354 420	-7 660 607
Accumulated surplus/ (deficit) before transfers to reserves	829 793 545	810 224 164
Transfer to reserves:		
Capital replacement reserve		
Balance at the beginning of the year	36 339 186	22 532 735
Income	9 639 655	20 633 498
Transfer of unspent capital equitable share grant funding	403 542	6 337 934
Interest received on investment	2 222 247	1 348 102
Contribution from operating account	7 013 866	12 947 463
Less: Expenditure	15 935 159	6 827 047
Funding of capital projects	15 935 159	6 827 047
Balance at the end of the year	30 043 681	36 339 186
The Council at its meeting held on 30 May 2013, approved a Funding and Reserve Policy. The Capital Replacement Reserve is fully funded and invested.		
Accumulated surplus/ (deficit) at the end of the year	859 837 226	846 563 349
24. PROPERTY RATES		
The last general valuation came into effect on:		
Eshowe	01 July 2015	01 July 2015
Mtunzini	01 July 2015	01 July 2015
Gingindhlovu	01 July 2015	01 July 2015
Rate randages:		
Residential	0.9902	0.9341
Commercial and Industrial	1.2377	1.1677
Vacant land	1.9803	1.8683
Mining	1.9803	1.8683
Government	1.2377	1.1677
Municipal	0.2475	0.2335
Clubs/ Churches	0.2475	0.2335
Agricultural	0.2475	0.2335
Public service infrastructure	0.2475	0.2335
Rebates:		
Municipal properties	100%	100%
Government properties	20%	20%
Pensioners	40%	40%
Residential properties with land values of R100 000 and less	100%	100%
Public Service Infrastructure	30%	30%
Industrial incentives		
All undeveloped serviced industrial sites where the industrial developer has provided the full range of Municipal services Industrialists are granted incentive rebates on a phased reducing basis over five years.	100%	100%

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PROPERTY RATES (CONTINUE)

Actual

Commercial
Residential
Education and state
Agriculture
Municipal
Public benefit
Vacant land
Mining
Public Service Infrastructure

Total property rates

Less: Rebates

Total

Valuations

Commercial
Residential
Education and state
Agriculture
Municipal
Public benefit
Vacant land
Mining
Public Service Infrastructure

Total property valuations

In terms of the provisions of Section 32 (1)(b) of the Local Government: Municipal Property Rates Act (Act No. 6 of 2004), a valuation roll remains valid for that financial year or for one or more subsequent financial years as the municipality may decide, but in total not for more than four (4) financial years. Messrs Umhlaba Geomatics Incorporated compiled the valuation roll which was implemented on 01 July 2015.

25. GOVERNMENT GRANTS AND SUBSIDIES

Equitable share grant
Department of Co-operative Governance and Traditional Affairs
Department of Minerals and Energy
Provincial administration
King Cetshwayo District Municipality

25.1 Equitable share grant

Balance at the beginning of the year
Equitable share grant allocation for the reporting year
Transferred to revenue
Transferred to capital funding
Unspent operating equitable share allocations in 2016
Unspent capital equitable share funding in 2016
Transfer to Capital Replacement Reserve (Note 23)
Balance at the end of the year

25.2 Department of Co-operative Governance and Traditional Affairs

Balance at the beginning of the year
Current year receipts
Conditions met - transferred to revenue
Conditions still to be met - transferred to liabilities (Note 17)

2017	2016
R	R
9 582 235	9 205 053
22 794 892	20 815 318
25 088 377	24 647 052
3 935 838	3 798 137
2 053 747	1 952 709
174 898	151 733
6 498 263	6 021 147
404 219	560 490
5 117 709	4 905 419
75 650 177	72 057 058
29 061 787	25 681 482
46 588 390	46 375 576
709 258 000	710 143 000
2 436 289 000	2 403 704 000
2 286 672 000	2 289 484 000
1 807 542 000	1 799 625 000
149 204 000	161 641 000
79 740 000	76 928 000
282 025 000	278 378 000
20 412 000	20 412 000
3 013 064 000	3 014 619 000
10 784 206 000	10 754 934 000
131 637 850	119 853 530
4 811 800	7 525 189
8 000 000	4 079 441
4 173 237	4 102 011
80 000	-
148 702 887	135 560 171
-	-
-148 417 000	-145 537 000
131 637 850	119 853 530
16 779 150	25 683 470
-1 540 354	-2 246 649
-403 542	-6 337 934
1 943 896	8 584 583
-	-
5 502 622	-
61 200	12 600 000
-5 433 747	-7 097 378
130 075	5 502 622

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GOVERNMENT GRANTS AND SUBSIDIES (CONTINUE)

25.3 Department of Minerals and Energy

	2017 R	2016 R
Balance at the beginning of the year	5 651 688	6 294 129
Current year receipts	8 000 000	8 000 000
Conditions met - transferred to revenue	-8 000 000	-7 779 441
Returned to National Treasury	-5 651 688	-863 000
Conditions still to be met - transferred to liabilities (Note 17)	<u>-</u>	<u>5 651 688</u>

25.4 Department of Arts and Culture

Balance at the beginning of the year	151 246	140 770
Current year receipts	-	361 000
Conditions met - transferred to revenue	-151 246	-350 524
Conditions still to be met - transferred to liabilities (Note 17)	<u>-</u>	<u>151 246</u>

25.5 Department of Sport and Recreation

Balance at the beginning of the year	-	953 519
Current year receipts	600 000	-
Conditions met - transferred to revenue	-278 790	-953 519
Conditions still to be met - transferred to liabilities (Note 17)	<u>321 210</u>	<u>-</u>

25.6 Department of Human Settlements

Balance at the beginning of the year	393 972	393 972
Current year receipts	-	-
Conditions met - transferred to revenue	-	-
Conditions still to be met - transferred to liabilities (Note 17)	<u>393 972</u>	<u>393 972</u>

25.7 King Cetshwayo District Municipality

Balance at the beginning of the year	-	-
Current year receipts	260 000	-
Conditions met - transferred to revenue	-80 000	-
Conditions still to be met - transferred to liabilities (Note 17)	<u>180 000</u>	<u>-</u>

25.8 National Treasury

Municipal Systems Improvement Grant

Balance at the beginning of the year	-	490 611
Current year receipts	-	930 000
Conditions met - transferred to revenue	-	-930 000
Returned to National Treasury	-	-490 611
Conditions still to be met - transferred to liabilities (Note 17)	<u>-</u>	<u>-</u>

Municipal Infrastructure Grant

Balance at the beginning of the year	1 342 477	3 764 893
Current year receipts	35 539 000	39 090 000
Conditions met - transferred to revenue	-35 539 000	-40 702 416
Returned to National Treasury	-1 342 477	-810 000
Conditions still to be met - transferred to liabilities (Note 17)	<u>-</u>	<u>1 342 477</u>

Finance Management Grant

Balance at the beginning of the year	-	61 241
Current year receipts	1 625 000	1 600 000
Conditions met - transferred to revenue	-1 625 000	-1 600 000
Returned to National Treasury	-	-61 241
Conditions still to be met - transferred to liabilities (Note 17)	<u>-</u>	<u>-</u>

Extended Public Works Programme Integrated Grant

Balance at the beginning of the year	403 841	-
Current year receipts	2 924 000	3 037 000
Conditions met - transferred to revenue	-2 924 000	-2 633 159
Returned to National Treasury	-403 841	-
Conditions still to be met - transferred to liabilities (Note 17)	<u>-</u>	<u>403 841</u>

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	2017	2016
	R	R
26. PUBLIC CONTRIBUTIONS, DONATED AND CONTRIBUTED PPE		
Donated assets		
For the year ended 30 June 2016:		
1) The Biyela Community Service Centre in Ward 6 was a project initiated by the Department of Co-Operative Governance and Traditional Affairs. A total amount of R6 821 431 (Excl VAT) was paid by the Department to the consultant and the contractor. The project was completed in the 2015/2016 financial year and the centre has been handed over for full responsibility to the municipality.		6821431
2) The KwaZulu-Natal Department of Arts and Culture refurbished the Mtunzini Library. A total amount of R281 990 (Excl VAT) was paid by the Department. The refurbishment was completed in the 2015/2016 financial year.		281990
3) The municipality and ten (10) Traditional Authorities have signed memorandums of partnership for administration, use and maintenance of ninety one (91) rural facilities (halls, peace centres, crèches and sports fields). A service provider (Pricewaterhouse Coopers) has valued the rural facilities and brought them into the municipality's fixed asset register as donated assets.		86 783 142
	-	93 886 563
27. SERVICE CHARGES		
Sale of electricity	60 621 166	56 548 897
Refuse removal	11 755 888	11 078 079
	72 377 054	67 626 976
The service charges revenue are in respect of services rendered to consumers and billed in terms of the Council's approved tariffs.		
28. RENTAL OF FACILITIES AND EQUIPMENT		
Included in the rental of facilities are the following:		
Community halls/ Eshowe Sports Club	145 756	112 059
Sugar cane leases	962 441	788 694
Staff houses	126 109	87 836
Other rentals	188 431	167 319
	1 422 738	1 155 907
29. INTEREST EARNED		
Current account	412 615	271 158
Short-term investment deposits	5 154 421	6 195 742
	5 567 036	6 466 900
30. LICENCES AND PERMITS		
Trade licences	4 075	49 083
Testing station fees	1 897 400	1 965 395
Registration of vehicles	1 561 945	1 398 334
Rank permits	5 025	6 502
	3 468 444	3 419 316
31. OTHER INCOME		
Included in the other income are the following:		
Building plan fees	359 432	330 262
Burial fees	162 974	183 047
Caravan park entrance fees	1 513	3 536
Commission on stop orders	33 057	36 002
Electricity connection fees	195 340	255 792
Encroachment fees	61 103	45 509
Garden refuse removal	49 507	74 002
Housing administration fees and Insurance	47 210	58 280
Photocopying	643 744	328 845
Profit on E-card sales	4 499	8 427
Rates clearance certificates	44 095	69 268
SETA refund on staff training costs	177 815	134 800
Swimming pool fees	12 532	17 739
Sundry	260 740	829 319
Town planning	84 557	150 994
Use of refuse transfer station	-	39 272
Insurance claims	322 247	-
	2 460 368	2 565 093

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	2017	2016
	R	R
32. GAIN/ (LOSS) ON SALE OF ASSETS		
Property, plant and equipment	400 415	911 450
	400 415	911 450
33. EMPLOYEE RELATED COSTS		
33.1 REMUNERATION OF KEY MANAGEMENT PERSONNEL:		
Remuneration of the Municipal Manager (Contract ended on the 30 June 2017)		
Annual remuneration	1 241 583	1 145 271
Performance bonus	130 337	-
Travel allowance	180 000	180 000
Contributions to UIF, Medical and Pension Funds	1 784	1 784
Group life	24 831	22 905
	1 578 535	1 349 960
Remuneration of the Chief Financial Officer		
Annual remuneration	724 520	711 402
Performance bonus	142 747	86 577
Travel allowance	180 000	126 000
Contributions to UIF, Medical and Pension Funds	100 681	1 784
Group life	14 490	14 228
	1 162 438	939 991
Remuneration of the Director: Corporate Services		
Annual remuneration	812 624	749 238
Performance bonus	130 817	123 412
Travel allowance	120 000	120 000
Contributions to UIF, Medical and Pension Funds	1 784	1 784
Group life	-	-
	1 065 225	994 434
Remuneration of the Director: Protection Services		
The position of the Director: Protection Services, is vacant since 01 January 2013.		
Remuneration of the Director: Community Services (Contract ended on the 31 May 2017)		
Annual remuneration	657 239	725 578
Performance bonus	84 129	79 367
Travel allowance	198 000	144 000
Contributions to UIF, Medical and Pension Funds	1 635	1 784
Group life	-	-
	941 003	950 729
Remuneration of the Director: Engineering Services (Resigned on 31 May 2016)		
Annual remuneration	-	650 909
Performance bonus	-	79 336
Travel allowance	-	132 000
Contributions to UIF, Medical and Pension Funds	-	1 784
Group life	-	13 017
	-	877 046
33.2 EMPLOYEE RELATED COSTS		
Salaries and allowances	64 583 271	54 513 923
Contributions to UIF, group life, pensions and medical aid	15 872 024	13 866 040
Travel, motor car, accommodation, subsistence and other allowances	5 114 596	4 865 223
Housing benefits and allowances	198 856	194 862
Overtime payments	4 296 847	3 698 574
Protective clothing	722 620	383 972
Workmen's compensation	820 427	593 196
Skills development levy	931 518	842 266
	92 540 159	78 958 055

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	2017	2016															
	R	R															
34. REMUNERATION OF COUNCILLORS																	
Mayor's allowance	774 307	782 480															
Deputy mayor's allowance	618 070	630 878															
Speaker's allowance	624 898	630 878															
Chief whip's allowance	499 642	592 978															
Executive committee members' allowances	3 801 925	4 340 837															
Councillors' allowances	10 809 001	9 464 734															
Councillors' pension and medical aid contributions	503 863	999 754															
	17 631 706	17 442 539															
<p>The Mayor, Deputy Mayor, Speaker and Chief whip are full time councillors, and have offices and secretarial support at the cost of the Council. The Mayor, Deputy Mayor and Speaker has the use of leased vehicles for official duties.</p> <p>There are eight (8) full time Executive Committee members who have no offices and secretarial support.</p>																	
<p>Security (body guards) are provided, at the cost of Council, to office bearers as follows:</p> <table> <tr> <td>Mayor</td><td style="text-align: right;">10</td><td style="text-align: right;">(3 body guards and 7 security guards at residences)</td></tr> <tr> <td>Deputy mayor</td><td style="text-align: right;">2</td><td></td></tr> <tr> <td>Speaker</td><td style="text-align: right;">2</td><td></td></tr> <tr> <td>Chief whip</td><td style="text-align: right;">2</td><td></td></tr> <tr> <td>Councillors (14)</td><td style="text-align: right;">15</td><td></td></tr> </table>			Mayor	10	(3 body guards and 7 security guards at residences)	Deputy mayor	2		Speaker	2		Chief whip	2		Councillors (14)	15	
Mayor	10	(3 body guards and 7 security guards at residences)															
Deputy mayor	2																
Speaker	2																
Chief whip	2																
Councillors (14)	15																
35. DEPRECIATION, IMPAIRMENT LOSS AND AMORTISATION EXPENSE																	
<u>Depreciation and Impairment Loss</u>																	
Depreciation: Property, plant and equipment	40 838 999	35 801 144															
Impairment loss on property, plant and equipment	148 385	3 972 483															
<u>Amortisation</u>																	
Intangible assets	276 569	216 703															
Total Depreciation, Impairment Loss and Amortisation Expense	41 263 953	39 990 330															
36. REPAIRS AND MAINTENANCE																	
Buildings	1 061 312	920 527															
Concrete Signage	61 355																
Electricity mains	632 862	614 331															
LV & HV Upgrading	786 157	669 574															
Electricity sub stations	44 714	20 383															
Fuel and oil	3 068 265	3 180 738															
Furniture and equipment	71 250	110 874															
Grounds (Parks and gardens, Cemeteries, Refuse transfer site)	162 762	284 976															
Grounds (Recreation grounds)	204 445	-															
Office equipment	24 463	20 096															
Roads and streets	2 050 021	2 239 031															
Small plant and equipment	254 972	256 545															
Speed testing equipment	12 203	9 637															
Street lights	523 001	423 644															
Traffic signs	38 441	24 950															
Transport	1 473 841	2 613 700															
Maintenance: Air conditioners	55 263	53 654															
Maintenance: Swimming pools	-	65															
Maintenance: Rural grounds	151 284	261 617															
Maintenance: Rural roads	9 706 082	9 643 803															
Private Jobbing	4 870	-															
	20 387 564	21 348 145															
37. FINANCE COSTS																	
Loans payable	537 243	576 525															
38. BULK PURCHASES																	
Electricity	45 758 770	43 727 155															
<p>Bulk purchases are the cost of commodities not generated by the municipality, but which the municipality distributes to consumers. The municipality purchases electricity in bulk from Eskom and then redistributes it to consumers.</p>																	

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	2017	2016
	R	R
39. CONTRACTED SERVICES		
Contracted services for:		
Animal pound	601 632	590 952
Archive storage	67 912	80 945
Asset management	495 287	721 489
Bank collections	406 551	265 692
Cleaning : Bus rank	571 065	672 260
Computer maintenance	3 031 023	1 517 477
Design and project management - Mayor's parlour	-	199 679
Fleet management	322 847	576 000
Formalize informal settlement plan	-	162 000
Grass cutting	1 925 155	1 448 227
ICT Governance service	-	554 703
Insurance	807 654	743 914
Internal audit	-	1 507 412
Lease: Propnet properties	123 966	114 566
Lease: Radio repeater site	3 531	7 588
Lease: Toilet facilities - Testing Station	19 199	19 199
Lease: Weigh bridge	407 000	451 425
Hiring of Vehicles for office bearers	2 096 895	-
Mailing: Monthly consumer accounts	169 112	200 282
Management system: Pre paid electricity	1 133 421	802 195
mSCOA Implementation	929 550	120 021
Performance Management System	164 244	-
Post employment report	-	17 492
Pre paid electricity commission	-	106 382
Proposal office space	341 000	-
Refuse removal	3 697 856	3 708 317
Rental of office equipment	684 520	713 085
Re-valuation of properties	-	438
Review pavement management system	-	313 500
Security: Office bearers and Council buildings	11 512 742	9 377 578
Security: Sport fields	333 152	359 531
Town planning	-	471
Traffic violation system	2 834 464	2 642 573
Valuation costs: Monthly maintenance	208 030	215 438
	32 887 808	28 210 831
40. EMPLOYEE BENEFITS		
Post retirement medical benefits	2 658 821	-
Long-service awards	924 733	737 287
Performance bonuses	385 737	352 048
Employee bonuses	2 897 774	2 605 589
	6 867 065	3 694 924

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		2017	2016
		R	R
41. GENERAL EXPENSES			
Advertising		810 723	610 412
Audit fees	(Note 49.2)	1 250 120	1 424 588
Bank charges		309 688	301 268
Bargaining Council levies		34 452	29 776
Bursaries		178 898	112 330
Cash handling fee: Easy pay		43 741	39 882
Chemicals		15 653	39 711
Civic expenses		349 137	219 410
Cleaning materials		205 182	148 439
Conference and delegations		158 256	52 051
Contribution to Capital Replacement Reserve	(Note 23)	7 013 866	12 947 463
Council's communication (Annual report, IDP and Quarterly newspaper)		135 350	143 850
Electricity: Other accounts		568 188	469 190
Employee assistance programme		240 313	232 384
Employee medical examinations		300	215 800
Entertainment allowances		157 916	131 444
Environmental Studies		77 047	
Finance Management Grant		1 581 174	1 044 149
Furniture removal cost: New staff		-	29 965
Government grants expenditure	(Note 41.1)	23 958 882	29 725 962
Grants and subsidies paid	(Note 53)	4 573 684	3 865 495
Housing transfers		-	390 000
IDP Roadshows		519 605	208 445
First aid kits		-	36 185
Fruitless and wasteful expenditure	(Note 50.3)	1 448 616	9 158
Internship programme		179 514	81 285
Internal Audit Expenses		303 342	-
Legal expenses		3 532 187	2 633 691
LGSETA learnership programme		223 152	
Library: Purchasing of new books		16 382	15 435
License fees		56 148	37 079
Loose Tools		58 721	26 461
Loss on sale of assets		99 156	-
Membership fees (SALGA)	(Note 49.1)	1 068 091	853 042
Postage		39 154	43 586
Printing and stationary		621 411	512 498
Communication		2 010 722	1 193 922
Recycling awareness programmes		9 764	13 714
Redundant stock value		102	-
Refuse bin liners		900 363	625 101
Removal of informal settlements		226 323	70 900
Rental of buildings		47 875	45 411
Road marking		205 601	143 718
SABS: 3% charge		10 113	11 416
Subscriptions		99 561	55 351
Subsistence and travel: Staff		1 629 784	1 220 747
Subsistence and travel: Councillors		1 028 116	734 371
Telephone costs		1 261 992	1 175 909
Town planning		535 752	156 542
Traditional leaders		48 000	48 000
Trees and shrubs		1 265	6 271
Traffic: Ammunition and training		17 391	21 603
Training		796 927	823 918
Ward committees		1 078 503	1 091 975
Water and sanitation costs		1 255 260	1 205 156
Website		19 930	22 009
Weed eradication		628 800	474 502
Other		4 016	5 208
		61 644 211	65 776 177

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	2017	2016
	R	R
41. GENERAL EXPENSES (CONTINUE)		
41.1 Additional information for Government Grants expenditure:		
Caretaking of rural buildings	244 472	45 261
Cyber cadet: Libraries	202 732	350 334
Municipal Systems Improvement Grant	-	686 602
Youth development	1 089 538	1 123 941
Community support programme	775 659	788 650
Local economic development	903 652	3 481 224
Ceremonial events	54 750	79 886
Commemorative celebrations	45 966	174 079
Poverty alleviation	2 369 789	2 797 887
Youth business advisory centre	191 999	185 741
Rural fire prevention	142 204	133 336
Disaster assistance	527 356	359 791
Humanitarian assistance	949 892	950 160
Sport development	1 081 216	2 252 935
Cultural development	259 026	600 005
Local aids council	346 047	508 787
Special programmes	451 436	609 029
Operation Sukuma Sakhe	335 976	205 157
Maintenance of rural facilities	278 796	141 495
Work creation projects	1 302 506	1 798 502
Project management unit administration costs	1 507 695	1 113 171
Extended Public Works Programme	2 924 000	2 622 758
Gingindlovu housing project	-	2 412 976
Integrated electricity programme	7 647 962	3 593 189
Electricity meter audit	-	102 315
Disaster management	76 143	1 365 551
Support to community centre	166 565	1 523
Land use management system	-	1 164 490
Councillor's funeral assistance	-	77 186
Informal Traders Training	80 000	-
Rural Education	3 505	-
	23 958 882	29 725 962
42. ACCRUED STAFF LEAVE		
Balance at the beginning of the year	4 552 044	3 328 150
Contributions to provision	2 664 740	2 563 645
Commuting of staff leave against provision	1 946 036	1 339 750
Balance at the end of the year	5 270 748	4 552 044
	(Note 16)	
43. FAIR VALUE ADJUSTMENT		
Fair value adjustment for investment properties	-	-
Fair value adjustment on heritage assets	-	10 309 933
	-	10 309 933

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	2017	2016
	R	(Restated) R
44. CASH GENERATED BY OPERATIONS		
Surplus/ (deficit) for the year	11 981 918	128 452 662
<u>Adjustments for:-</u>		
Previous year's operating transactions	-8 354 420	-7 660 607
Depreciation	41 263 953	39 990 330
Donated assets	-	-93 886 563
Actuarial gains	-	-737 696
Contribution to the Capital Replacement Reserve	9 639 655	16 633 498
Free basic Services	3 921 644	2 885 135
(Gain)/ loss on sale of assets	-400 415	-911 450
Fair value adjustment	-	-10 309 933
Public contributions	-64 091	-62 523
Non-cash flow movement	260 639	1 018 681
Contributions to provisions (non-current)		
Employee benefits	6 867 065	3 694 924
Contributions to provisions (current)		
Staff leave	2 664 740	2 563 645
Non-operating expenditure		
Expenditure for leave	-1 946 036	-1 339 750
Expenditure for long service awards	-523 733	-521 000
Expenditure for post retirement medical benefits	-479 821	-441 606
Operating surplus before working capital changes:	64 831 100	79 367 748
(Increase)/ decrease in inventory	-12 599	-289 144
(Increase)/ decrease in receivables from exchange transactions	-1 454 597	187 417
(Increase)/ decrease in receivables from non-exchange transactions	4 279 606	-5 099 454
(Increase)/ decrease in VAT receivable	6 978 457	-3 390 058
(Increase)/ decrease in deposits with creditors	-	-49 001
Increase/ (decrease) in VAT payable	285 069	-808 020
Increase/ (decrease) in unspent conditional grants and receipts	-13 487 705	5 148 084
Increase/ (decrease) in payables from exchange transactions	-8 531 264	25 148 088
Increase/ (decrease) in employee benefits	676 421	473 082
Increase/ (decrease) in provisions	-5 063 439	175 195
	-16 330 055	21 496 186
Net cash flow from operating activities	48 501 043	100 863 933
45. INCREASE/ (DECREASE) IN LONG TERM LOANS (EXTERNAL)		
Loans raised	-	-
Loans repaid	-342 816	-342 816
	-342 816	-342 816
46. INCREASE/ (DECREASE) IN CASH ON HAND		
Cash balance at the beginning of the year	112 438 562	79 034 476
LESS : Cash balance at the end of the year	86 122 738	112 438 562
	-26 315 824	33 404 086

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	2017	2016
	R	R
47. RETIREMENT BENEFITS		
The municipality's personnel are members of one of the three Natal Joint Municipal Pension Funds i.e. (Superannuation, Provident and Retirement). The valuator carries out a statutory valuation on a tri-annual basis and an interim valuation on an annual basis.		
The following valuations have been carried out:		
Superannuation fund	Interim	Annual basis
Provident fund	Statutory	Tri-annual basis
Retirement fund	Statutory	Tri-annual basis
47.1 Superannuation		
An Interim Actuarial Valuation of the fund was carried out for the period ending 31 March 2016 (31/03/2015). The actuarial value of total assets was more (less) than the actuarial value of liabilities for the service of pensioners and for members to that date, made up as follows:	-	-
For service to 31 March 2016		
Pensioners		
Assets:	5 074 120 000	4 814 734 000
Liabilities:	5 074 120 000	4 814 734 000
Funding level 125.9%		
(2015: Funding level 128.5%)		
Members		
Assets:	5 431 090 000	5 298 493 000
Liabilities:	5 431 090 000	5 298 493 000
Funding level 103.3%		
(2015: Funding level 111.2%)		
Total fund:		
Total assets:	10 505 210 000	10 113 227 000
Total liabilities:	10 505 210 000	10 113 227 000
The fund held an Investment Reserve of:	-	-
Contribution reserve	71 475 000	64 229 000
Conclusion		
1. The valuation reveals that the total Fund is 100% funded as at the valuation date at the overall level. The pensioner liabilities are fully funded and the liabilities in respect of active members are 100% funded.		
2. The surcharge of 9.5% will continue to be paid for 8 years in terms of the "Scheme to Eliminate Deficiency", which was implemented from 1 August 2012, to eliminate the shortfall and then to build up sufficient solvency reserves.		
3. It is necessary to retain the Contribution Reserve to hold assets equal to the expected shortfall, which was 0.81% of pensionable salaries at the valuation date.		
47.2 Provident Fund		
The salient features of the Statutory Actuarial Valuation Report on the fund as at 31 March 2016 (31/03/2015) were that the net market value of the fund's assets were not sufficient to fully cover the members' share account and to provide total reserves of	2 864 167 000	2 453 607 000
The liabilities of the fund did not exceed the assets, resulting in a small surplus (or unallocated assets) of	152 765 000	182 457 000
which represents 7.3% of liabilities and reserves.		
The bonuses declared subsequent to the valuation date have been greater than the investment earnings over that period, and the shortfall has been met from the unallocated assets.		
Conclusion		
1) The actuary do not recommend that any final bonus be declared at the valuation date.		
2) The Fund self-insures its death benefits and disability benefits.		
3) The actuary is satisfied that the asset composition on the valuation date is appropriate.		
4) Members are able to choose a rate of contribution between 5% and 9.25% of pensionable salaries.		

	2017	2016
	R	R

The salient features of the Statutory Actuarial Valuation Report on the fund as at 31 March 2016 were:

-244 870 000	-148 694 000
--------------	--------------

For service to 31 March 2016

-244 870 000	-148 694 000
--------------	--------------

The fund did not hold an investment reserve

15.85%	15.85%
1.65%	1.65%

The previous statutory valuation as at 31 March 2015 showed a deficit in the Fund. The employers and members are paying a surcharge of 17.5% of pensionable salaries (for all active members at 31 December 2002), which was expected to fund the deficit over a eight year period to 31 July 2020. Even though a surcharge was paid during the valuation period, the funding level has not increased by as much as was expected. This is primarily as a result of high salary increases over the valuation period and a strengthening of the valuation basis.

1) The Fund is 93.8% funded as at the valuation date (2015 - 96.1%) at the overall level. The pensioner liabilities are fully funded and the liabilities in respect of active members are 85.9% funded. The financial position of Fund has thus improved since the previous valuation date.

2) The actuary recommend that the surcharge continue to be paid in terms of the "Scheme to Eliminate Deficiency" to firstly eliminate the short fall and then build up sufficient solvency reserves.

3) The Fund self-insures its risks benefits.

37.4 Municipal Councillors' Pension Fund
The Municipal Councillors' Pension Fund operates as a defined contribution fund. The contributions paid by the members (13.75%) and council (15%) is sufficient to fund the benefits accruing from the fund in the future. The last valuation performed for the year ended 30 June 2012 revealed that the fund had an funding level of 99.5% (2009 - 102.0%), and is in a sound financial state as at 30 June 2012.

48.1 Commitments in respect of capital expenditure

Approved and contracted for

Approved and
Infrastructure
Community
Other

Approved and not contracted for

Approved and
Infrastructure
Community
Other

Total

This expenditure will be financed from:

Own resources
Government grants

7 814 379	41 244 731
7 814 379	31 976 582
-	8 922 813
-	345 335
3 706 880	10 563 381
3 007 232	4 646 235
527 765	1 873 099
171 884	4 044 047
11 521 259	51 808 111
3 706 880	11 518 236
7 814 379	40 289 875
11 521 259	51 808 111

48.2 Operating leases

The Municipality as the lessee:

The Municipality as the lessee.
Council has concluded operating lease agreements with suppliers which are required to be paid in instalments as follows:

$$\begin{array}{r} 1\,421\,924 \\ 958\,726 \\ 1\,035\,424 \\ \hline 3\,416\,074 \end{array}$$

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	2017 R	2016 R
49. ADDITIONAL DISCLOSURES IN TERMS OF THE MUNICIPAL FINANCE MANAGEMENT ACT		
49.1 Contributions to organised local government		
South African Local Government Association (SALGA)		
Opening balance	-	-
Council subscriptions:	1 068 091	853 042
Bargaining council	34 452	29 776
Amount paid - current year	-1 102 544	-882 817
Balance unpaid (included in payables)	<u>-</u>	<u>-</u>
49.2 Audit fees		
Opening balance	-	-
Current year audit fees	1 553 462	1 424 569
Amount paid - current year	-1 553 462	-1 424 569
Balance unpaid (included in payables)	<u>-</u>	<u>-</u>
49.3 Value added tax		
VAT Receivable (Note 4)	3 438 057	10 416 514
VAT Payable (Note 4)	-1 062 005	-776 936
	<u>2 376 052</u>	<u>9 639 578</u>
VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtors.		
49.4 PAYE and UIF		
Opening balance	-	-
Current year payroll deductions	14 464 123	12 465 734
Amount paid - current year	-14 464 123	-12 465 734
Balance unpaid (included in payables)	<u>-</u>	<u>-</u>
49.5 Pension and Medical Aid Deductions		
Opening balance	-	-
Current year payroll deductions and Council contributions	22 059 143	18 817 715
Amount paid - current year	-22 059 143	-18 817 715
Balance unpaid (included in payables)	<u>-</u>	<u>-</u>
49.6 Councillor's arrear consumer accounts		
For the year ended 30 June 2017		
As at 30 June 2017, no Councillors were in arrears with their municipal accounts.		
<u>The following Councillors had arrear accounts outstanding as at 30 June for more than 90 days:</u>		
For the year ended 30 June 2016	<u>Total</u>	<u>Outstanding less than 90 days</u> <u>Outstanding more than 90 days</u>
B I & R P Thusi	10 502	- 10 502

The amount of R10 502 is for damage caused to electricity infrastructure. Initially there was a dispute for the damage. An agreement was reached where the arrears are now settled in monthly instalments.

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	2017 R	2016 R
50. UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE		
50.1 Unauthorised expenditure		
For the year ended 30 June 2016:		
Opening balance		24 163 627
A large portion of the amount was approved as valid expenditure by the Executive Committee at its meeting held on 09 October 2015.		
(Exco Min No. 121/15/16)		-14 197 513
2013/2014 Financial Year. Amount approved as valid expenditure by the Executive Committee at its meeting held on 09 October 2015.		
(Exco Min No. 122/15/16)		-9 961 969
In terms of Section 15 of the Municipal Finance Management Act, the following amounts were in excess of the budgeted amount as per respective line votes:		
Operating:		
	<u>Budget</u>	<u>Actual</u>
		<u>Variance</u>
Executive and Council	101 208 580	110 142 505
		8 933 925
Explanations of variance:		
Executive and Council : Additional impairment losses calculated on the Council's assets and allowance for doubtful debts caused the over expenditure.		
Capital:		
	<u>Budget</u>	<u>Actual</u>
		<u>Variance</u>
Public safety	860 000	3 141 477
		2 281 477
Explanations of variance:		
A grant was received from the Department of Co-operative Governance and Traditional Affairs for the re-furbishment of the Gingindlovu fire station. The expenditure for the project was erroneously paid from the operating budget. At year-end the error was rectified, and the expenditure was transferred to capital where no budget was provided.		
For the year ended 30 June 2017:		
Opening balance		11 219 547
The amount of R11 215 402 was approved as valid expenditure by Council at its meeting held on 30 August 2016.		
(Council Min No. 39/16/17)		-11 215 402
Closing balance	4 145	11 219 547
50.2 Irregular expenditure		
For the year ended 30 June 2016:		
Opening balance		30 708 679
Procuring of security services for office bearers - not following the correct procurement process		2 689 661
Procuring goods and services without following the correct procurement process		345 352
Non-compliance with Section 12(1) of the SCM Policy - payments exceeding threshold of petty cash		95 100
Non-compliance with Section 12(3) of the SCM Policy - amounts deliberately split to avoid complying with requirements of the policy		2 700
The council approved to write-off all irregular expenditure		-33 841 491
Letter submitted to National Treasury on 31 August 2016 for condonation of irregular expenditure - No response received		
For the year ended 30 June 2017:		
Opening balance		0
Procuring of security services for office bearers - not following the correct procurement process		6 617 299
Procuring of cash in transit services - not following the correct procurement process		452 808
Procuring of other goods and services without following the correct procurement process		740 031
Non-compliance with Section 44(b) of the SCM Policy - director a person in service of the state		55 883
Less: Expenditure approved as valid at the Municipal Public Accounts Committee Meeting (MPAC)		
Procuring of security services for office bearers - not following the correct procurement process - resolved at MPAC 7.4 13/07/17		-3 494 141
Procuring of security services for office bearers - not following the correct procurement process - resolved at MPAC 7.5 21/08/17		-3 123 157
Procuring of cash in transit services - not following the correct procurement process - resolved at MPAC 7.5 21/08/17		-75 468
Procuring goods and services without following the correct procurement process		-28 500
Procuring goods and services without following the correct procurement process - resolved at MPAC 21/08/17		-241 770
Non-compliance with Section 44(b) of the SCM Policy - director a person in service of the state - resolved at MPAC 10.2 23/05/17		-55 883
Closing balance	847 101	0

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UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE (CONTINUE)

50.3 Fruitless and wasteful expenditure

For the year ended 30 June 2016:

Opening balance

Duplication of catering services for S A L G B C event on 25 August 2015	9 847
Administration fees for traffic fines while driving hired vehicles for office bearers - Grindrod Travel	4 600
Penalty for late renewal of municipal motor vehicle licence	1 685
Arbitration set down for hearing. Postponed at arbitration. Respondent ordered to pay the costs of the day-SALGBC (28/04/2016)	63
	3 000

For the year ended 30 June 2017:

Opening balance

Administration fees for traffic fines while driving hired vehicles for office bearers - Grindrod Travel	19 194
Administration fees for traffic fines while officials were driving hired vehicles - Grindrod Travel	2 832
Duplication of catering services for S A L G B C event on 25 August 2015 - recovered from MB Hulley	5 955
Less: Amounts transferred to receivables for recovery in terms of Section 32(2) of the MFMA (Refer to note 3)	-4 600
Accommodation booked for the Strategic Planning for Management	-747
The amount of R9208.00 was approved as valid expenditure by the Municipal Public Accounts Committee at its meeting held on 24 November 2016	9 208
De-establishment cost and standing time for the Eshowe landfill site project	-9 208
The amount of R1 445 177.00 was approved as valid expenditure by the Municipal Public Accounts Committee at its meeting held on 13 July 2017	1 445 177
	-1 445 177
Closing balance	22 634
	19 194

51. RELATED PARTIES

Parties are considered to be related if:

- 1) One party has the ability to control the other party or
- 2) Exercise significant influence over the other party in making financial and operating decisions.

The following are awards above R2 000 made to close family members of people in the service of the state:

Type of service	Awarded to	Total amount	Relation
Catering	Nkiza Business cc	40 950	The owner of the business is the wife of Councillor W P Mzimela

52. RECONCILIATION OF BUDGET SURPLUS WITH THE SURPLUS IN THE STATEMENT OF FINANCIAL PERFORMANCE

Net surplus per the statement of financial performance	11 981 918	128 452 662
Adjusted for Fair value adjustments	-	-10 309 933
(Surplus)/ deficit on the sale of assets	-400 415	-911 450
Increases/ (decreases) in allowances	87 919 533	81 472 032
(Increases)/ decreases in revenue derived from tariffs	-120 388 181	-115 158 459
(Increases)/ decreases in other revenue	-88 273 894	-162 552 508
(Increases)/ decreases in interest earned on external investments	-5 567 036	-6 466 900
(Increases)/ decreases in government grants and subsidies received	-148 702 887	-135 560 171
Increases/ (decreases) in employee related cost	110 171 864	96 400 595
Increases/ (decreases) in general expenses	61 644 211	65 776 177
Increases/ (decreases) in contracted services	32 887 808	28 210 831
Increases/ (decreases) in other expenditure	66 683 577	65 651 824
Surplus/ (deficit) for the year	7 956 500	35 004 698
(Refer to Statement of Comparison of Budget and Actual Amounts)		

53. GRANTS AND SUBSIDIES PAID

Child and Family Welfare Organisation	135 000	130 000
Society for the Prevention of Cruelty to Animals (S P C A)	130 000	125 000
uMalazi Tourism Association	200 000	195 000
Zululand Historical Museum	187 040	323 360
Vukani Zulu Cultural Museum	-	207 000
Free refuse	1 889 622	1 720 168
Free electricity	2 032 022	1 164 968
	4 573 684	3 865 495

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54. ELECTRICITY LOSSES

Purchase of electricity (kilowatt hours)
Sale of electricity (kilowatt hours)

Kilowatt hour losses

Percentage losses

Rand value of electricity losses
Rand value of electricity losses

Electricity losses are caused by the following:
1) Street lights consumptions that are not metered
2) Tampering with electricity installations
3) Other technical losses

55. CONTINGENT LIABILITY

Below is a possible liability claim where the outcome was unknown at 30 June 2016 with the maximum unforeseen liability for the Municipality.

Contingent Liability Description of Parties	Reason for the Claim	Value of the claim
Umpheme Development (Pty) Limited v uMlalazi Municipality	This is a claim for the housing project in Gingindlovu	1 740 440
Total Contingent Liability for 2016		1 740 440

Below are possible liability claims where the outcomes were unknown at 30 June 2017 with the maximum unforeseen liability for the Municipality.

Contingent Liability Description of Parties	Reason for the Claim	Value of the claim
R Mall v uMlalazi Municipality (Ref: BU000)	Claim arising from the alleged removal of certain structures on the Remainder of Erf 436, Eshowe	50 000
The Nigel Williamson Trust v uMlalazi Municipality (Ref: BU001)	Claim arising from a property rates dispute on Erf 331, Mtunzini	20 000
SM Mathenjwa v uMlalazi Municipality	Claim arising from the possible unlawful dismissal of the Local Economic Development Officer in 2013	305 516
Ighora Construction v uMlalazi Municipality	Claim arising from the termination of road construction contract at the King Dinuzulu Suburb	10 754 222
Sibgem v uMlalazi Municipality	Claim arising from the termination of Project Management Unit Services contract	702 240
Mgamule Consulting v uMlalazi Municipality	Claim arising from breach of consulting contract for the Kwabulawayo Sportsfield	1 002 251
Total Contingent Liability for 2017		12 834 229

56. DEVIATION FROM SUPPLY CHAIN MANAGEMENT

The following deviations and ratifications of minor breaches of procurement processes are reported to Council in terms of Section 36(2) of the Supply Chain Management Policy:

Closed quotations/ tenders: (July 2015 to June 2016)

Month	R0 - R20 000	R20 001 - R50 000	R50 001 - R100 000	R100 001 - R200 000	ABOVE R200 001	Total
July	125 252.19	151 301.49	182 209.31	1 330 086.70	1 374 220.53	3 163 070.22
August	83 234.39	143 562.68	178 489.00		499 267.96	904 554.03
September	69 344.27	158 891.25	150 138.00	169 062.00		547 435.52
October	133 262.70	45 533.03			277 020.00	455 815.73
November	35 043.30		50 092.79		556 000.00	641 136.09
December	36 383.82	27 866.40	86 516.00			150 766.22
January	101 463.51				773 600.00	875 063.51
February	39 721.30	126 330.10		959 511.19	860 857.38	1 986 419.97
March	71 391.56	122 544.00	233 468.00			427 403.56
April	47 918.82	97 107.30	51 300.00			196 326.12
May	97 111.20	37 734.00	75 000.00	185 238.58	237 600.00	632 683.78
June	74 821.59	203 670.12	193 585.94	566 502.21	278 056.71	1 316 636.57
Total	914 948.65	1 114 540.37	1 200 799.04	3 210 400.68	4 856 622.58	11 297 311.32

Closed quotations/ tenders: (July 2016 to June 2017)

Month	R0 - R20 000	R20 001 - R50 000	R50 001 - R100 000	R100 001 - R200 000	ABOVE R200 001	Total
July	53 614	-	-	-	-	53 614
August	-	48 473	92 722	-	-	141 194
September	44 544	-	-	-	-	44 544
October	14 334	88 455	58 036	-	-	160 825
November	29 834	28 308	75 992	-	471 326	605 461
December	10 473	-	-	-	2 373 693	2 384 165
January	96 172	39 000	-	-	-	135 172
February	65 701	25 435	62 128	-	-	153 264
March	16 799	23 225	-	-	-	40 024
April	35 318	-	99 644	-	-	134 962
May	43 210	181 597	161 310	-	-	386 118
June	81 934	63 745	-	173 700	-	319 379
Total	491 933	498 238	549 832	173 700	2 845 019	4 558 722

The above-mentioned deviations from the Supply Chain Management processes has been condoned in terms of the approved policy.

2017	2016
R	R
50 320 324	49 874 613
44 393 447	44 785 456
5 926 877	5 089 157
11.78%	10.20%
8 593 971.65	6 921 253.52

57. FINANCIAL RISK MANAGEMENT

Risk and exposure are disclosed as follows:

57.1 Credit risk exposure

Cash and cash equivalents (Refer to notes below)
Maximum credit exposure

86 122 738	112 438 562
86 122 738	112 438 562

Note 1: The risk relating to short term deposits is minimised due to the nature of the municipal finance structure.

Note 2: The risk relating to cash and cash equivalents is minimised as the municipality only deposits cash with major banks with high quality credit standing.

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57.2 Liquidity risk

Consumer deposits
Payables from exchange transactions
VAT payable
Unspent conditional grants and receipts
Loans payable
Employee benefits
Provisions

2017	2016
R	R
1 911 455	1 763 664
39 367 976	47 899 242
1 062 005	776 936
6 611 267	20 098 974
342 816	342 816
5 227 996	4 551 575
-	5 063 439
54 523 514	80 496 645

Current assets
Current liabilities
Current assets as a percentage of current liabilities
Current assets to current liabilities ratio

112 035 516	148 139 895
54 523 514	80 496 645
205%	184%
2.1:1	1.8:1

The generally accepted norm for this ratio is 1.5:1. The higher the ratio, the more liquid the municipality, and the better chances of meeting short term debt with short term liquid resources.

57.3 Interest risk

Management has assessed the impact of interest rate risk on the operations of the municipality and considers the risk to be negligible.

57.4 Market risk

Owing to legislative restrictions, the municipality has no exposure to market risk.

APPENDIX A

uMLALAZI MUNICIPALITY

SCHEDULE OF EXTERNAL LOANS FOR THE YEAR ENDED 30 JUNE 2017

EXTERNAL LOANS	Loan	Interest rate	Maturity date	Balance at 30/06/2016 R	Received during the period R	Redeemed written off during the period R	Balance 30/06/2017 R	Carrying Value of Property Plant & Equipment R	Other Costs in Accordance with the MFMA R
Annuity Loans									
Development Bank of South Africa	Industrial Area	12.42%		4 456 603	-	342 816	4 113 788		
TOTAL EXTERNAL LOANS				4 456 603	-	342 816	4 113 788		

APPENDIX B

uMLALAZI MUNICIPALITY

ANALYSIS OF PROPERTY PLANT AND EQUIPMENT FOR THE YEAR ENDED 30 JUNE 2017

	Opening Balance	Additions Infrastructure	AUC released	Additions	Revaluation	Donated assets	Disposals	Cost / Revaluati Closing Balance	Opening Balance	Additions	Accumulated Disposals	Depreciation Closing Balance	Accumulated Impairment Opening Balance	Additions	Disposals	Closing Balance	Carrying Value	Carrying Value
	30/06/2016	2016/2017	2016/2017	2016/2017	2016/2017	2016/2017	2016/2017	2016/2017	30/06/2016	2016/2017	2016/2017	2016/2017	30/06/2016	2016/2017	2016/2017	2016/2017	2016/2017	30/06/2016
	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R
Land	131 596 827	-	-	-	-	-	-1 932 663	129 664 164	-	-	-	-	-	-	-	-	129 664 164	131 596 827
Community assets	284 993 259	-	6 357 264	1 248 455	-	-	-1 401 252	291 197 726	-71 211 960	-14 698 062	1 284 905	-84 625 117	-5 501 301	-12 852	-	-5 514 153	201 058 456	208 279 999
Vehicles	25 968 604	-	-	4 051 614	-	-	-2 458 970	27 561 248	-12 445 433	-2 762 867	1 775 149	-13 433 151	-151 556	-63 988	123 716	-91 828	14 036 270	13 371 615
Roads	426 715 530	-	40 661 293	849 725	-	-	-15 271 977	452 954 570	-156 039 047	-15 032 359	10 047 485	-161 023 922	-1 990 125	-	134 734	-1 855 391	290 075 256	268 686 358
Bridges: Vehicles	6 273 576	-	-	-	-	-	-	6 273 576	-1 300 392	-257 569	-	-1 557 961	-43 615	-	-	-43 615	4 672 001	4 929 570
Bridges: Pedestrian	156 243	-	-	-	-	-	-	156 243	-3 501	-5 284	-	-8 786	-	-	-	-	147 456	152 742
Roads: Asphalt surface	72 720 626	-	13 352 470	-	-	-	-4 413 025	81 660 070	-14 072 587	-3 348 666	1 082 159	-16 339 094	-936 164	-	126 498	-809 666	64 511 310	57 711 875
Roads: Asphalt basis/structure	125 692 516	-	18 817 547	-	-	-	-10 858 952	133 651 211	-68 958 746	-3 605 669	8 965 325	-63 599 090	-271 489	-	8 236	-263 254	69 788 867	56 462 380
Roads: Gravel surface	10 931 746	-	8 208 575	-	-	-	-	19 140 321	-4 243 267	-3 221 715	-	-7 464 983	-	-	-	-	11 675 339	6 688 479
Roads: Earthworks	86 255 624	-	-	-	-	-	-	86 255 624	-41 403 330	-2 756 843	-	-44 160 173	-	-	-	-	42 095 451	44 852 294
Roads: Kerb and channels	34 997 194	-	12 277	192 646	-	-	-	35 202 117	-20 515 147	-998 525	-	-21 513 672	-177 834	-	-	-177 834	13 510 611	14 304 212
Roads: Pedestrian footpaths	4 369 703	-	24 468	488 549	-	-	-	4 882 719	-1 306 157	-150 644	-	-1 456 800	-557 075	-	-	-557 075	2 868 844	2 506 471
Roads: Street lighting	3 583 875	-	-	-	-	-	-	3 583 875	-1 169 090	-119 565	-	-1 288 655	-458	-	-	-458	2 294 763	2 414 328
Causeways	10 340 704	-	-	-	-	-	-	10 340 704	-2 409 048	-495 341	-	-2 904 388	-	-	-	-	7 436 315	7 931 656
Roads: Traffic lights	469 020	-	-	-	-	-	-	469 020	-137 832	-20 560	-	-158 391	-	-	-	-	310 629	331 188
Roads: Traffic signs	13 810	-	-	-	-	-	-	13 810	-599	-	-	-12 610	-	-	-	-	1 200	1 799
Road calming measures	781 088	-	-	-	-	-	-	781 088	-409 234	-22 796	-	-432 030	-	-	-	-	349 057	371 853
Land - Road reserve	69 502 363	-	-	-	-	-	-	69 502 363	-	-	-	-	-	-	-	-	69 502 363	69 502 363
Speed humps	627 343	-	245 956	168 530	-	-	-	1 041 829	-98 704	-28 584	-	-127 288	-3 490	-	-	-3 490	911 052	525 149
Storm water	89 331 184	-	4 146 092	77 059	-	-	-	93 554 335	-48 849 119	-2 737 957	-	-51 587 076	-1 469 577	-	-	-1 469 577	40 497 682	39 012 489
Kerb inlets	8 456 968	-	1 737	-	-	-	-	8 458 706	-5 582 330	-206 989	-	-5 789 339	-12 030	-	-	-12 030	2 857 336	2 862 588
Masonry structures	3 256 752	-	1 264 809	-	-	-	-	4 521 561	-1 750 023	-132 755	-	-1 882 778	-14 664	-	-	-14 664	2 624 119	1 492 065
Pipes	31 839 680	-	-	-	-	-	-	31 839 680	-19 856 443	-685 269	-	-20 541 712	-128	-	-	-128	11 297 840	11 983 109
RC Structures	9 519 243	-	-	-	-	-	-	9 519 243	-5 854 569	-377 547	-	-6 232 116	-92 835	-	-	-92 835	3 194 292	3 571 839
Channels	36 258 541	-	2 879 546	77 059	-	-	-	39 215 146	-15 805 733	-1 335 398	-	-17 141 131	-1 349 921	-	-	-1 349 921	20 724 094	19 102 888
Electrical	67 571 047	-	-	665 273	-	-	-	68 236 321	-21 306 142	-2 482 887	-	-23 789 029	-1 363 411	-	-	-1 363 411	43 083 880	44 901 494
Transformers	7 588 161	-	-	-	-	-	-	7 588 161	-2 559 181	-404 569	-	-2 963 749	-82 180	-	-	-82 180	4 542 232	4 946 801
Prepaid electricity meters	254 632	-	-	-	-	-	-	254 632	-131 057	-18 196	-	-149 253	-	-	-	-	105 380	123 576
Cables	15 609 643	-	-	-	-	-	-	15 609 643	-7 246 825	-522 267	-	-7 769 092	-	-	-	-	7 840 551	8 362 818
Substation switchgear	25 084 207	-	-	-	-	-	-	25 084 207	-6 355 107	-853 220	-	-7 208 327	-920 483	-	-	-920 483	16 955 396	17 808 616
Perimeter protection	218 591	-	-	-	-	-	-	218 591	-145 690	-12 687	-	-158 377	-	-	-	-	60 214	72 901
Substation	3 056 851	-	-	-	-	-	-	3 056 851	-845 592	-121 464	-	-967 056	-117 814	-	-	-117 814	1 971 981	2 093 445
Ring main unit	1 436 506	-	-	665 273	-	-	-	2 101 779	-341 561	-52 481	-	-394 041	-69 245	-	-	-69 245	1 638 493	1 025 700
Mini sub stations	14 322 456	-	-	-	-	-	-	14 322 456	-3 681 130	-498 005	-	-4 179 135	-173 689	-	-	-173 689	9 969 632	10 467 637
Furniture and equipment	7 302 210	-	-	628 742	-	-	-409 779	7 521 174	-3 870 645	-865 362	333 471	-4 402 536	-179 811	-13 400	44 593	-148 618	2 970 023	3 251 757
Computer equipment	6 995 015	-	-	4 460 197	-	-	-863 177	10 592 034	-2 660 876	-1 252 833	627 554	-3 286 154	-42 509	-43 264	42 239	-43 534	7 262 345	4 291 631
Machinery and equipment	8 792 624	-	-	496 683	-	-	-379 181	8 910 127	-4 524 939	-1 006 671	279 996	-5 251 612	-81 765	-14 880	77 951	-18 694	3 639 822	4 185 921
Assets under construction	61 652 339	62 082 769	-51 164 649	-	-	-	-	72 570 459	-	-	-	-	-	-	-	-	72 570 459	61 652 339
Property, plant and equipment (Note 8)	1 110 918 639	62 082 769	0	12 477 747	-	-	-22 717 000	1 162 762 157	-320 908 160	-40 838 999	14 348 560	-347 398 596	-10 780 055	-148 385	423 233	-10 505 207	804 858 352	779 230 424
Heritage assets (Note 13)	10 311 344	-	-	-	-	-	-	10 311 344	-	-	-	-	-	-	-	-	10 311 344	10 311 344
Investment properties (Note 12)	16 257 000	-	-	-	-	-	-	16 257 000	-	-	-	-	-	-	-	-	16 257 000	16 257 000
Intangible assets (Note 11)	1 837 577	-	-	456 383	-	-	-	2 293 959	-1 218 323	-276 569	-	-1 494 892	-	-	-	-	799 068	619 254
	1 139 324 560	62 082 769	0	12 934 130	-	-	-22 717 000	1 191 624 461	-322 126 483	-41 115 568	14 348 560	-348 893 488	-10 780 055	-148 385	423 233	-10 505 207	832 225 764	806 418 022

APPENDIX C

uMLALAZI MUNICIPALITY

SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2017

	2017 Actual Income	2017 Actual Expenditure	2017 (Surplus)/ Deficit
	R	R	R
Executive and Council	-208 571 182	120 835 626	-87 735 556
Budget and Treasury Office	-6 267 103	18 653 872	12 386 769
Corporate Services	-838 879	14 137 067	13 298 188
Planning and Development	-4 836 468	15 082 980	10 246 512
Health	-3 784 300	7 900 469	4 116 169
Community and Social Services	-3 306 826	4 007 160	700 333
Housing	-704 566	106 160	-598 407
Public safety	-37 379 446	58 815 082	21 435 636
Sport and Recreation	-3 441 079	13 868 334	10 427 255
Waste management	-15 466 885	17 031 873	1 564 988
Road transport	-13 279 874	22 749 786	9 469 911
Electricity	-80 279 368	72 340 757	-7 938 610
Air transport	-	5 353	5 353
Workshop	-	639 541	639 541
Total	-378 155 977	366 174 058	-11 981 918

2016 Actual Income	2016 Actual Expenditure	2016 (Surplus)/ Deficit
R	R	R
-310 282 664	110 142 505	-200 140 160
-4 051 086	15 267 940	11 216 854
-430 257	11 600 810	11 170 553
-9 492 636	16 780 674	7 288 038
-5 017 129	8 752 823	3 735 695
-3 659 925	4 244 857	584 932
-539 639	2 583 382	2 043 743
-35 098 623	52 827 360	17 728 737
-3 794 302	12 230 403	8 436 101
-15 519 682	17 329 003	1 809 321
-13 164 920	20 737 996	7 573 076
-68 608 183	68 102 086	-506 096
-	5 893	5 893
-	600 651	600 651
-469 659 045	341 206 382	-128 452 667

APPENDIX D (1)

uMLALAZI MUNICIPALITY

ACTUAL COMPARED WITH BUDGETED REVENUE AND EXPENDITURE

FOR THE YEAR ENDED 30 JUNE 2017

	Actual 2017 R	Budget 2017 R	Variance 2017 R	Variance 2017 %	Explanation of significant variances greater than 10% versus budget
REVENUE					
Revenue from Non-exchange Transactions	-291 928 438	-297 094 950	-5 166 512	-1.74	
Taxation revenue	-50 299 608	-53 145 560	-2 845 952		
Property rates	-46 588 390	-49 318 750	-2 730 360	-5.54	
Property rates- penalties imposed	-3 711 219	-3 826 810	-115 591	-3.02	
Transfer revenue	-205 727 241	-209 270 490	-3 543 249		
Government grants and subsidies - operational	-148 702 887	-151 515 360	-2 812 473	-1.86	
Transfers recognised - capital	-57 024 355	-54 503 130	2 521 225	4.63	
Public contributions, donated and contributed PPE	-	-3 252 000	-3 252 000	-100.00	The Crèches that were constructed by The Divine Life Society of SA were not officially handed over to the municipality
Other	-35 901 588	-34 678 900	1 222 688		
Fines	-35 901 588	-34 678 900	1 222 688	3.53	
Actuarial gains	-	-	-	-	
Revenue from Exchange Transactions	-86 227 539	-85 653 410	574 129	0.67	
Service charges	-72 377 054	-70 908 050	1 469 004	2.07	
Rental of facilities and equipment	-1 422 738	-1 161 730	261 008	22.47	The revenue from sugar cane leases increased more than anticipated.
Interest earned- external investments	-5 567 036	-6 483 890	-916 854	-14.14	Adjustments budget prediction was overstated.
Interest earned- outstanding debtors	-531 485	-505 480	26 005	5.14	
Licences and permits	-3 468 444	-3 580 650	-112 206	-3.13	
Other income	-2 460 368	-2 883 610	-423 242	-14.68	Decreased revenue from building plan fees and electricity connections.
(Gain)/ loss on sale of assets	-400 415	-130 000	270 415	208.01	Auction proceeds increased the revenue.
Total revenue	-378 155 977	-382 748 360	-4 592 383	-1.20	
EXPENDITURE					
Executive and Council	120 835 626	121 004 660	-169 034	-0.14	
Budget and Treasury Office	18 653 872	19 041 660	-387 788	-2.04	
Corporate Services	14 137 067	14 263 350	-126 283	-0.89	
Planning and Development	15 082 980	15 695 670	-612 690	-3.90	
Health	7 900 469	8 279 280	-378 811	-4.58	
Community and Social Services	4 007 160	6 266 880	-2 259 720	-36.06	Budget not fully spent on library salary items, Cemetery environmental studies not carried out, Museum and libraries building maintenance not fully spent.
Housing	106 160	132 900	-26 740	-20.12	Staff housing maintenance not fully utilized.
Public safety	58 815 082	58 884 410	-69 328	-0.12	
Sport and Recreation	13 868 334	14 125 560	-257 226	-1.82	
Waste management	17 031 873	17 851 630	-819 757	-4.59	
Road transport	22 749 786	23 034 260	-284 474	-1.24	
Electricity	72 340 757	76 363 250	-4 022 493	-5.27	
Air transport	5 353	13 890	-8 537	-61.46	No spending on the maintenance of grounds budget for the airfield.
Workshop	639 541	664 460	-24 919	-3.75	
Total expenditure	366 174 058	375 621 860	-9 447 802	-2.52	
(Profit)/ loss on fair value adjustment	-	-830 000	-830 000	-100.00	The service provider, Umhlaba Geomatics Inc confirmed that there were no fair value adjustments required on investment properties.
(SURPLUS)/ DEFICIT FOR THE YEAR	-11 981 918	-7 956 500	-14 870 185		

APPENDIX D (2)

uMLALAZI MUNICIPALITY

ACTUAL VERSUS BUDGET - ACQUISITION OF PROPERTY PLANT AND EQUIPMENT

FOR THE YEAR ENDED 30 JUNE 2017

	2017 Actual	2017 Under Construction	2017 Total Additions	2017 Budget	2017 Variance	2017 Variance	Explanation of significant variances greater than 10% versus budget
	R	R	R	R	R	%	
Executive and Council	304 339		304 339	304 500	161	0.05%	
Budget and Treasury Office	283 217	1 287 697	1 570 915	1 629 690	58 775	3.61%	
Corporate Services	7 801 161	4 003 166	11 804 327	12 004 080	199 753	1.66%	
Planning and Development	307 534	-	307 534	316 100	8 566	2.71%	
Health	235 181	-	235 181	241 500	6 319	2.62%	
Community and Social Services	949	-	949	1 000	51	5.10%	
Public safety	4 109 059	-	4 109 059	4 458 080	349 021	7.83%	
Sport and Recreation	887 974	4 460 696	5 348 670	6 368 990	1 020 320	16.02%	Kwabulawayo Sportsfield is still under construction.
Waste management	193 815	-	193 815	221 000	27 185	12.30%	Budget for refuse bins not fully spent.
Road transport	18 469 679	31 219 430	49 689 109	54 826 800	5 137 691	9.37%	
Electricity	1 453 000	-	1 453 000	1 636 650	183 650	11.22%	Budget for 3-way ring main unit not fully spent. Expenditure on street lights and robot control system classified as operational costs.
	34 045 908	40 970 989	75 016 899	82 008 390	6 991 492	8.53%	

APPENDIX E

uMLALAZI MUNICIPALITY

DISCLOSURE OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA (ACT NO. 56 OF 2003)

FOR THE YEAR ENDED 30 JUNE 2017

Grants and Subsidies Received

Name of organ of state and description of grants	Number of grant	Quarterly receipts				Quarterly expenditure				Grants and Subsidies delayed/withheld	Reason for delay withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for non-compliance
		July to Sept 2016	Oct to Dec 2016	Jan to Mar 2017	April to June 2017	July to Sept 2016	Oct to Dec 2016	Jan to Mar 2017	April to June 2017				
		1	2	3	4	1	2	3	4				
DEPARTMENT OF CO-OPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS													
Disaster management grant		-	-	-	-	2 192 160	-	-	-	NO	N/A	YES	N/A
Support to community service centres grant		-	-	-	-	69 069	20 364	116 843	126 520	NO	N/A	YES	N/A
Small town rehabilitation grant		-	-	-	-	1 155 439	1 553 936	-	138 215	NO	N/A	YES	N/A
LG seta grant		-	-	61 200	-	-	-	61 200	-				
		-	-	61 200	-	3 416 669	1 574 300	178 043	264 735				
NATIONAL TREASURY													
Municipal Infrastructure Grant		15 000 000	18 000 000	2 539 000	-	5 628 340	7 652 476	4 889 681	17 368 503	NO	N/A	YES	N/A
Financial Management Grant		1 625 000	-	-	-	404 404	293 952	232 313	694 331	NO	N/A	YES	N/A
Expanded Public Works Programme Integrated Grant		731 000	-	2 193 000	-	697 520	1 327 915	244 379	654 186	NO	N/A	YES	N/A
		17 356 000	18 000 000	4 732 000	-	6 730 263	9 274 343	5 366 374	18 717 020				
DEPARTMENT OF ARTS AND CULTURAL													
Community library services grant		-	-	-	-	81 779	56 332	13 135	-	NO	N/A	YES	N/A
		-	-	-	-	81 779	56 332	13 135	-				
DEPARTMENT OF SPORT AND RECREATION													
Maintenance of sport facilities grant		300 000	-	-	300 000	17 679	93 345	93 345	74 422	NO	N/A	YES	N/A
		300 000	-	-	300 000	17 679	93 345	93 345	74 422				
DEPARTMENT OF MINERALS AND ENERGY													
Integrated national electrification programme grant		2 000 000	6 000 000	-	-	4 089 616	3 780 772	1 056	128 556	NO	N/A	YES	N/A
		2 000 000	6 000 000	-	-	4 089 616	3 780 772	1 056	128 556				
KING CETSHWAYO DISTRICT MUNICIPALITY													
Informal Traders Training Grant		-	-	80 000	-	-	-	80 000	-	NO	N/A	YES	N/A
Coastal Management Programme Grant		-	-	180 000	-	-	-	-	-	NO	N/A	YES	N/A
		-	-	260 000	-	-	-	80 000	-				
TOTAL OF ALL GRANTS		19 656 000	24 000 000	5 053 200	300 000	14 336 006	14 779 091	5 731 953	19 184 733				